

THE ROUND TABLE

A QUARTERLY REVIEW OF
THE POLITICS OF THE BRITISH EMPIRE

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THE BURDEN OF VICTORY

I

IT is sometimes difficult to realize that after ten months we are only now at the turning point of the war. The Allies in many a desperate battle have managed to resist the attacks of the German and Austro-Hungarian armies. But if the war is not to end in a German victory they have still to drive them back into their own territory, and force them to accept terms of peace which involve the admission of decisive defeat. The extent of the effort which is still required it is difficult to gauge but it is necessarily immense. The whole manhood of Germany and Austria-Hungary is under arms, and except for Galicia is planted firmly upon allied soil, far beyond the Austro-German frontier. The German armies will not go of themselves. It is no use deluding ourselves with pleasant expectations about German exhaustion or collapse. There is no real sign of it yet. On the contrary, they are confident that we cannot do what we have set out to do, to clear their armies out of Belgium and France, and hurl them back to the Rhine. And though we may drive them back here and there for a mile or two, or even for many miles, we shall not win the war till we are finally established on German soil. That is the solid fact we have to face. What does it mean?

It means this. In the first place that the end of the war will not come until the German armies are so reduced in numbers by constant fighting that there are no longer

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enough unwounded adult male Germans to man the lines which protect their territory from invasion. Modern wars, like most of the greatest wars of the past, are wars of attrition and exhaustion, not wars in which strategy is decisive. That side wins which can bring into the field the last half million men armed, trained and equipped. In the second place it means that the Allies have got to face losses not far short of those of the Germans if they mean to win, and still have a superiority at the end. But the policy of attrition in war costs not very far short of man for man. And if, as is likely, we have to kill or disable another 2,000,000 Germans before the road to Germany itself is clear, it means that not very far short of that number of English, French and Russians must be killed or disabled too. That is the conclusion. It is ghastly, but it is at least decisive. It shows us the measure of the effort which is still before us.

We have to face it, and the sooner we face it the quicker it will be done and the smaller will be the cost. We cannot hesitate or turn back. There is too much at stake, our own liberty, our pledged word to Belgium and to our Allies, the peace and happiness of all future generations of men. Without in any way underestimating the vital part which our sea-power has played and must continue to play, we must realize that the burden on land also will fall in ever increasing proportion on ourselves, at any rate in the West. The French have borne by far the greater share from the beginning. Their losses are infinitely greater than ours. If the war is to last far into next year, as may well be necessary, before the Germans are decisively beaten, we shall have to hold a far larger proportion of the Western front than we do at present. The war cannot be won on any principle of limited liability. The French are already putting every available man in the field. How can we expect our Allies to fight on to that bitter finish which alone will end the domination of Europe by the Prussian cult of power, unless we make efforts as great as theirs? We bore the lesser

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burden at the start. We must be prepared to bear the greater burden at the close.

This imposes upon us a very grave responsibility. For on our effort and our preparedness it will depend, whether, in the last crucial months, that final thrust on land is made, which will determine whether the German military domination is to be finally overthrown, or whether through sheer exhaustion a peace is patched up which will be no better than a prelude to a new war. The record of the nation and of the Empire, up to date, has been one of which we need not be ashamed. It is a people's war, and the people have responded nobly to the call. There is probably no instance in history of any nation creating so great an army in so short a time. Our accomplishment, too, is overwhelming proof of what the voluntary system can do with a public spirited and self-reliant people. But the problem of the future is totally different from the problem of the past. Our task, indeed, in this war is one of extraordinary complexity and difficulty and we are only just beginning to realize it. Not only have we to retain command of the sea and take an ever-increasing military burden in the West, but we have to play a special part both in munitioning and in financing our Allies. We are fighting a nation which is organized from top to bottom for war, which has thought out every problem in advance, and which is fighting under the inspiration of a single will to conquer at any cost. It will only be defeated if its opponents submit themselves to the same discipline, and fit themselves by the same foresight and organization to apply their whole national strength to the same end. In two other articles we examine this problem so far as it relates to the organization of labour and to the organization of finance. An attempt is made to show the absence of central direction, the failure in the past to grapple with the real problems, and the paramount necessity of unity and decision in control, and in economy in expenditure, both public and private, if the war is not to end in the disaster of an indecisive peace. It is the purpose of this article to

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concentrate attention on the most fundamental problem of all—the provision of armed men.

Soldiers cannot be improvised. Experience shows that it takes more rather than less than six months to train and equip an army. If we are to make sure of winning this war in the decisive manner which is essential to our own safety and the future peace of the world, we cannot slacken in the expansion of our military resources. Hitherto we have been able to liberate, by haphazard means, enough men to fill the new armies, and to keep up the reserves of the old, without dislocating essential industries in too great a degree. Serious difficulties have arisen but somehow or other they have been overcome. But this system cannot work much longer. No official figures have been published, but the numbers, who, from the United Kingdom alone, in one form or other, are now on active service, must be well over 2,000,000. It may have been practical business to allow this number to be liberated by unregulated impulse. It will certainly not be possible to liberate even another million without direction and control. And the reason is simply that the individual citizen to-day cannot judge what he ought to do. The majority of those who could and obviously ought to enlist have already done so. There are some, no doubt, who are too indifferent or too ignorant to understand the need. But the vast mass are in honest doubt. Any large increase in the number taken either for recruits or for work in the armament shops, must involve, as it has involved in France and Germany, the closing down of many private businesses. The individual citizen cannot be expected to decide whether or not his business should continue, or whether he himself should leave his work and join the army or not. For the immense majority it is not compulsion which is primarily required, but that the Government which is responsible for the conduct of the war, and which alone is in a position to judge, should say clearly whether they individually are wanted or not.

Despite the large number who have already gone, it is

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obvious that there are more men to be had, whether for service in the workshop or the field. Though our population is greater than that of France, the numbers in the armies are probably scarcely half those who have joined the French colours. After making all allowances for those needed for the supply of munitions, not only to ourselves but to our Allies, for keeping up that foreign trade which is so vital to the finance of the war, there is still a large reserve of able-bodied men available for active service. Unless democracy is to prove its incapacity to defeat autocracy, unless Europe is to forfeit its liberty by failure in resolution and foresight at the crucial time, these men must somehow or other be rendered available for the service of the nation for the duration of the war.

There is only one way of doing it. The Government must take upon itself the responsibility for telling able-bodied citizens how they are to employ themselves to the end of the war. And for this purpose it must have a register of the manhood of the nation, giving it information about the age, qualification, health and present occupation of every individual. The Government has already nibbled at the problem. Some months ago it made the householders' return. And now it is asking employers to send in returns giving some particulars about their staffs. But these measures are both futile and unfair. They are futile because they are incomplete. They are unfair because only the public spirited respond. The only course is for the Government to do what it does with the census, with income tax returns and similar measures, pass in a single day an Act authorizing it to make a register of the manhood of the nation and giving it statutory powers to call upon every citizen to give it the information it needs. When that register is complete it will know what it cannot know at present, how many men of military age there are left in the country, and how they are employed. It will be able to answer the question which every public spirited man in Great Britain is now asking and cannot answer, "What is the best service I can render to the

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country to the end of the war?" And, if there is a remnant which is too indifferent or too selfish to respond to the national call, it will be able to compel them to do so.

II

THERE is another way in which we can help to make victory certain. The United Kingdom is the first great reservoir from which those final reserves must be drawn which will decide the issue between Prussian domination and European liberty. The outer Empire is the second reservoir. Just as we, because we are outside the Continent, have done less than the continental Powers, and have been slower to realize the responsibility which rests upon us, so the Dominions have done less than we have done, and have been slower to realize the responsibility which rests upon them. That is natural and inevitable. It implies no blame. But the true facts are beginning to emerge. If we look ahead we can already see that the defeat of the Germans in the West—without which victory will not be won—will depend upon our keeping an ever increasing number of troops in the field, despite an ever increasing wastage. And it is becoming increasingly probable that success in that final and supreme crisis which will decide the issue of the war, will depend on whether the Dominions come forward, as we have still to come forward, with their last horse and their last man.

We have no desire to belittle what the Dominions have done. They have made every effort which has been asked of them. Their sons have fought with a courage and persistence which has not been surpassed. But their contribution is of the same kind as the British contribution at the beginning of the war. The performance of the British army in the retreat from Mons, and at the battles of the Marne and the Aisne was heroic, it helped to ultimate

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victory, but by itself it will not win the war. It is the effort which has still to be made which will win the war, and that effort, if it is to be successful, must come equally from all parts.

The machinery of the British Empire is admittedly incomplete. It made it possible for the British Government to commit the Dominions to war without consulting their ministers and as the outcome of a policy over which they had no control. It has made it impossible for that same Government, acting as the Imperial Government, to make any appeals to the population of the Dominions to join the armies with which alone their safety and their future can be preserved. As a result it has never taken the Dominions properly into consideration during the war, it has never asked them to do their utmost, it has never made it clear that the final issue may depend on what the 14,000,000 British citizens over sea may do. And this defect in machinery makes great difficulties now. For it is simply not possible to make any body of men understand the urgency of the case by cable or letter. The only way is through personal contact. If the Dominions are to play that decisive part which they may be called upon to play, it is of the utmost importance that there should be an informal conference at which their responsible ministers can learn the real inwardness of the situation, and can settle the ways and means whereby a steady stream of trained recruits can be fed to the armies in France, so that they can then return to the Dominions and make their own people understand what has to be done. We have no fear of the result. The great difficulty of the war has been to bring home to the British people how serious was the task before them. They are even now, after the last outrages, only beginning to realize it. The Dominion peoples are no less heart and soul in the war than the British. They also feel a glow of pride that they are fighting for civilization when neutrals stand aside, but they cannot realize the true nature of the struggle unless their leaders first are told.

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III

WE stand at the parting of the ways. Our success or failure in the war is going to depend on whether we act with resolution and foresight now. If we delay, if we allow ourselves to be buoyed up with false hopes, we may wake up one day to find that all Europe is so exhausted that a peace must be patched up if its peoples are to survive, that the utter defeat of Germany, which is essential alike to our own liberty and honour, and to any hope of better international relations in the future, is out of reach, whatever efforts we then may make, and that a truce-like peace and a new war lie ahead. If we act with decision, if we mobilize effectively our whole resources as an Empire, so that in the critical months before us we can pour in men, money and munitions, at the moment when they will be decisive, the great struggle for liberty can be certainly won, and the Prussian domination for ever destroyed.

The omens, let us say it clearly, are not very propitious. After every allowance has been made for our want of preparation and for the unforeseeable character of the war, we have not much to be proud of save the spirit in which the nation has joined the ranks and the bravery and determination of our troops by land and sea. In another article it is shown how lack of foresight and lack of decision in our foreign policy helped to precipitate the war. This same lack of foresight and decision has made itself apparent in our internal conduct of the war and in the way in which we have dealt with the labour problem, the munitions problem, the drink problem. If it continues and we fail to grapple now with the recruiting question, the need for economy in our public and private expenditure, the regulation of labour, it will produce a disaster far greater than the war itself. It is easy to blame the Government which has a vast and unparalleled task on its shoulders.

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But no government in a democratic country can act in the face of strong public opinion. No government on the other hand can fail to respond to strong public opinion. And if some uneasiness has become manifest of late about our organization for the war, there is no evidence that public opinion demands those radical and decisive measures which the real situation needs.

Let us have no illusions about the facts. After ten months' war Germany has won a position which will give her the mastery of Europe if she can keep it at the peace. She has conquered Belgium. She occupies the most productive part of France. She has bombarded our shores and sunk our merchantmen by scores. She has gained a great frontage on the Channel and the North Sea from which her destroyers and her submarines are able to operate, with impunity and success. Her own territory is still practically unscathed. In the process she has lost heavily, but she has still the resources, not of Germany alone, but of a vast area containing more than 100,000,000 souls. On the other hand, the Allies have stayed the Austro-German onset, and they have command of the sea which in the long run will tell ever more heavily in their favour. But by itself sea-power is not decisive. The decisive theatre is still the battlefield—that theatre on which the issue between a peace which will secure the world against a repetition of these horrors, and a peace which is but the prelude to a new war, has still to be fought out—and on the battlefield the Allies have as yet no clear advantage. They have lost hardly less heavily than the Austrians and the Germans. They have lost in men, they have lost in money, they have still everything to do.

Is it not obvious that we can afford to neglect no preparation and no discipline if our efforts are to be in time? We count upon attrition winning the war. So do the Germans. They count on exhausting France before we are ready to step in and fill her place. And it is the vigour of our action in the next few months that will decide whether the Germans or the Allies are right. The decision

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rests with us. For it depends on whether we begin at once to put forth that maximum effort which will be decisive, or whether we acquiesce in those half-hearted measures which will enable Germany to sign an inconclusive peace. On no nation has a greater responsibility ever rested. It is for every citizen to examine in his conscience how this duty is to be discharged.

FINANCE IN WAR

IN the December number of *THE ROUND TABLE* an attempt was made to estimate the financial resources of the principal nations engaged in the present war. The purpose of this article is to follow the matter up, firstly, by analysing the manner in which a great war is paid for; secondly, by examining shortly the financial methods which the combatant Governments are employing to mobilize the wealth of their respective nations for war expenditure; thirdly, by discussing the probable effect of the war expenditure on the financial future of the nations engaged. Readers of the December article will find in this one some repetition, which is made for the sake of clearness. A caution must be added with regard to the figures quoted in both articles, that in many cases they are only conjectures approximate to the truth, since there are no complete and exact statistics of the figures of national wealth or national income for any of the countries concerned.

I. HOW WARS ARE PAID FOR

A PRIVATE person who incurs some extraordinary expense, such as that of a long illness or a costly lawsuit, will meet it in one of three ways, either out of his income, or out of his capital, or by borrowing. Similarly a nation which goes to war must meet the expense of the war from one or other of three sources. The first source is the current

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income of the nation. What this consists in will be discussed later on. The second source is the capital or accumulated wealth of the nation. The third source is a foreign loan. Let us call these three sources A, B and C.

To avoid misunderstanding, it should be pointed out here that the income of a nation is something quite different from the income of its Government. The income of a Government is only a fraction of the national income, being that part which is taken by means of taxation to meet the expenses of the State. The balance of the national income remains in the hands of the people and is expended by them. Similarly the national capital is the accumulated wealth belonging to the people as well as that belonging to the Government. It is necessary to make this distinction clear, because the expense of a war may be met by a nation out of its income, though the Government may meet it by a loan: that is, if the people save enough during the war to pay for it, and the Government borrow their savings. Conversely, a Government might defray the expenses of a war by special taxation, refusing to raise a loan; while the people might pay the special taxes not out of their current income but out of their capital, their accumulated wealth. But this last is not likely to happen.

Having made this distinction, let us examine the three sources separately.

Source A. National Income

The income of a nation may be defined roughly as consisting of:

- (a) Its current output or production of wealth, in the form of usable or saleable articles of any kind.
- (b) Its earnings from other nations for services rendered.
- (c) Its revenue derived from foreign investments.

Thus the gross income of the British nation for the year 1913 consisted of:

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(a) The total value of all the usable or saleable articles produced or manufactured in the country during 1913.

(b) The earnings of the country through payments made by other countries for services rendered—for example, payments by foreigners to British shipping companies for freight, payments by foreigners to London bankers by way of commission, etc., payments made by foreign tourists for various services and so on.

(c) The revenue drawn by residents in Great Britain from their foreign investments.

It will be noted that items 2 and 3, that is the income derived from earnings and the income derived from interest on investments, are limited to the income of this sort which is derived from abroad. For, if the earnings or the interest are derived from a British source, they are already included in the first item, that is, in the country's output of usable or saleable articles, since it is out of this that they are paid.

For example, if a British shipping company receives from a British trader £10,000 for the freight of merchandise carried on his account, the freight is included in the final sale price of the merchandise, when it leaves his hands. That is to say, it comes out of the final sale value of that part of the British output. If the value of the output has already been reckoned in the computation of the national income, the payment of freight is a transference and not an addition. But if the shipping company receives £10,000 from an American trader, for carrying his goods to Europe, or for carrying to America goods which he has bought in Great Britain, the payment of freight is an addition to the gross national income of Great Britain.

Again, if Mr Jones of London owns shares or bonds in a British brewery company, the revenue which he draws from his investment is simply a part of the company's gross income and represents a part of its output during the year, that is, so many bottles of beer. As the company's total output has already been reckoned in computing the national

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income, the payment to Mr Jones must not be reckoned again. But if he owns shares or bonds in the United States Steel Corporation, the revenue he derives therefrom is not a part of the British output of wealth, but of the American. It is therefore an item in the national income, which has not been reckoned before, and must be added to it.

The gross income of a country as defined above will be reduced by any charges that there may be on it in the shape of interest due to other countries on money lent, or payments made to them for services rendered. When these deductions have been made, the net national income which is left will be used in the following ways:

(a) To meet the current living expenses of the nation, that is to provide it with food and clothing and whatever other articles of necessity or luxury it may consume in the course of the year.

(b) To maintain and improve what may be called the national plant and equipment, e.g., by keeping up and adding to its buildings, its machinery and so on, or by improving the land through drainage or clearing, or by constructing new roads and railways, or in many other ways which it is too long to enumerate.

(c) To invest abroad.

Now, in order to illustrate the payment of the expense of a war out of national income let us take an imaginary case. A country called Utopia has 10,000,000 inhabitants. Its national income is £500,000,000 annually, of which £400,000,000 represents its annual output or production of usable and saleable articles; the remaining £100,000,000 it gets to the extent of £60,000,000 by way of interest on its foreign investments and to the extent of £40,000,000 by way of payments from other countries for services rendered. It spends its national income as follows: £350,000,000 for current living expenses, £100,000,000 on the maintenance and improvement of the national plant, the remaining £50,000,000 is each year invested abroad.

Utopia engages in a great war. The first point to examine

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is how this will affect the different items of its national income. The revenue from foreign investments will not be affected at all, unless part of it is drawn from the country, with which Utopia is at war, or unless the war is so widespread as to impair the capacity of the debtor nations for paying interest on their debts. The earnings for services rendered to other countries may be affected either by Utopia becoming less able to render such services, while the war lasts, or by the demand for them decreasing in war-time. Lastly, the current output may and probably will be affected, even though Utopia is not invaded, by the drawing off of its population for military service and by the disorganization of industry and production attendant upon war. Whether the output is diminished in total value or not, its nature will no doubt be partially changed, e.g., factories which in peace time produced steel rails will now produce shells and guns. This, however, need not be taken into account here, as in either case the output will be brought into the national income at its money value.

It is conceivable that a war might actually increase the total value of the national output during its continuance, through the speeding up of production and through greater industry being imposed on the population. It is hardly likely, however, that this effect, if it happened, would counterbalance the conditions making against production, and it is safe to say that nearly always a war will bring about to a greater or less extent a reduction in the total value of a nation's output.

Let us now suppose that in the case of Utopia its revenue from foreign investments is not affected at all by the war, that its earnings from abroad are diminished by half, that is, they fall from £40,000,000 to £20,000,000 a year, and that the annual value of its national output is reduced during war time from £400,000,000 to £350,000,000. Its total annual income during the war will then be £430,000,000 only. Say that in the first year the Utopian Government has to spend £100,000,000 on the war. At the same time the

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Utopian nation reduces its annual living expenses from £350,000,000 to £280,000,000, partly through the general observance of economy, and the cutting off of expenditure on luxuries, partly through the living expenses of the men in the field being reckoned as part of the war expenses. The living expenses of the Utopian nation, plus its war expenses, will thus amount to £380,000,000 against an income of £430,000,000. There will be a surplus of £50,000,000. It will be remembered that in peace time Utopia spent £100,000,000 annually on keeping up and improving her national plant and put £50,000,000 annually into foreign investments. As she now only has £50,000,000 of national income left over, she must reduce her expenditure on "betterments" in Utopia itself by one-half and even then she will have no balance left to invest abroad in that year. If for any reason she should wish or be obliged to lend money abroad that year, say to the extent of £10,000,000, her expenditure on domestic "betterments" would have to be reduced to £40,000,000.

Say that in the second year of the war the cost rises to £150,000,000. The Utopian nation, by still more rigid economy, brings down its living expenses to £250,000,000. Its income remaining as before, it has a total expenditure that year of £400,000,000 against an income of £430,000,000. There is still £30,000,000 left for maintenance of the national plant, but nothing for foreign investments. In the third year the war expenditure rises to £180,000,000. The nation cannot or will not reduce its living expenses below £250,000,000. The income remaining the same as before, there is no margin at all left for "betterments." It is certain that a nation like Utopia cannot go on for even one year without spending a large sum on the maintenance of its national plant, even if nothing be spent on improvements. But, as the whole amount of the national income is now absorbed by (a) The current living expenses of the nation, (b) The special war expenses, how can any further expenditure be met? It can only be done by meeting part of the

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war expenditure not out of national income, but from one of the other two sources indicated previously, i.e. from the capital or accumulated wealth of the nation, or from borrowing.

Before we proceed to consider these other two sources, it may again be observed that a nation may pay for a war out of income, although the State pays for it by borrowing. Thus, in the illustration given above, the Utopian nation is supposed to find £100,000,000 for the first year of the war and £150,000,000 for the second year out of the national income. But the Utopian Government may raise the whole sum required in both years not by taxation but by a loan. It would borrow the money from its own subjects, who would lend it the surplus of their income. At the end of the second year the State of Utopia has increased its debt by £250,000,000, but the debt is due to its own subjects, and in a computation of national wealth the two entries cancel one another. From that point of view the result is just the same as if the Government had paid for the war, as it went along, by taxation instead of by raising a loan. In practice, of course, it would be impossible to impose or distribute equitably so large an addition to the annual taxes of the country, and for that reason, as well as for others which it is not necessary to speak of here, a modern state would certainly meet the greater part of its war expenditure by borrowing, even though the whole of the money borrowed were provided out of the current national income.

Source B. National Capital

A nation's capital at any moment may be defined as the whole mass of its accumulated wealth. This will consist of:

- (a) Fixed assets, such as land, buildings, machinery, railways, roads, canals, irrigation systems, etc., etc.
- (b) Live stock and stocks of raw material and manufactured goods of every kind, including articles of art and luxury.

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(c) Gold and silver coin or bullion.

(d) Debts owing by foreign nations.

The first three items under modern conditions will be to a large extent represented by pieces of paper in the form of shares, or bonds, or bank notes, which, of course, are not wealth in themselves but are tokens or evidences of property in wealth.

The fourth item is also generally represented by shares, or bonds, which are evidences of debts due by other countries or of property owned in other countries. To some extent it may also be represented by bills and other short term instruments, by banking entries or simply by entries in merchants' books, all of which are evidences of floating debts due from abroad.

When a country goes to war, to what extent can it draw upon its capital or accumulated wealth to defray the expenses of the war? Plainly, it can only do so either by using the actual articles of which its capital consists or by selling or pledging them and using the proceeds to meet the expenses of war.

The first method, that is, the direct use of its accumulated wealth, is limited by the nature of the wealth. Live stock and stocks of metals or clothing or leather or food or other raw material and manufactured articles can be used up and not replaced or only partly replaced. Coin and bullion can be used to purchase from abroad goods wanted either for the war or for the civil population. But with that we come to an end of the direct use of the nation's accumulated wealth for warlike purposes. The fixed assets, such as land and buildings, the articles of art and luxury, and the pieces of paper representing debts due from foreign countries, can only be made useful to meet warlike expenditure, if they can be sold or pledged abroad. In the present war, for example, an Englishman may sell a picture by Titian to an inhabitant of the United States. He thus establishes a credit in the United States for the price of the picture, say,

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£10,000. He invests this sum in the British War Loan and the British Government buys £10,000 worth of shells or of clothing or of wheat from America. The payment for this gives America a credit for £10,000 in London, which by the ordinary process of exchange cancels the credit established in America by the seller of the picture. In this way a part of Great Britain's accumulated wealth, namely, a Titian picture, has been realized and the proceeds devoted to war expenditure.

Instead of selling a picture our Englishman might sell on the New York Market a parcel of American Municipal Bonds or American Railway Shares; or, if New York was willing to purchase, he might sell Japanese Government Stock or the shares of South American Tramways. In either case, he would be realizing a part of the debt due to Great Britain by foreign countries. If he contributed the proceeds to war expenditure, either in the form of taxation or by taking up stock in a British War Loan, the immediate result of the process would be that Great Britain would have used a portion of its accumulated wealth towards meeting its current expenditure on war.

In the first example quoted it was an article of luxury that was converted and the proceeds used for warlike expenditure; in the second it was a debt due from a foreign country. But our Englishman might also sell abroad an English Railway Debenture or conceivably might raise a mortgage in New York or in Amsterdam on a building belonging to him in the City of London, and the proceeds as before might flow into the war-chest of Great Britain. In this case a part of the country's fixed assets would be sold or pledged. The asset would remain in Great Britain, it would not disappear from the country altogether like the Titian or the American Bond, but there would be an obligation laid upon it involving a charge on the country's future earnings. It will be seen that this particular way of using capital comes very close to the third method of providing for war expenditure which has been indicated,

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namely, that of borrowing abroad. It is only distinguished from it inasmuch as it consists in the pledging of particular assets by private individuals, whereas borrowing abroad is taken to mean the pledging by the national Government not of any particular assets but of the country's general credit. In practice it is not likely that the raising of money from abroad against fixed assets in a country at war will be carried on to any great extent. For it can only be done if foreigners are willing to invest money on the security of fixed assets in a country at war, and it is not likely that they will be.

It will be noted that in all the instances quoted the sale is spoken of as being made abroad. If the sale is made within the country at war, the resources of that country are not increased. If the Englishman sells his Titian or his American shares to another Englishman, he may contribute the money to the war by paying it in taxation or lending it to the Government, but he has deprived the purchaser of the power to do the same thing.

It was stated above that war expenditure might be partly defrayed out of a nation's capital through stocks of raw material and manufactured goods being used up and not replaced. For instance, a country might carry in ordinary times six months' stock of raw material for its principal manufactures and six months' supply of manufactured goods for its principal trading customers. During the war it might and probably would allow these stocks to run down. Suppose they ran down to the extent of one-half in each case. At the end of the war the country would find itself with this particular part of its capital diminished by one-half and it would find it necessary to replace this used-up capital, before it could again conduct its business on a proper footing. Livestock again is likely to be used up in the same way. So is shipping.

In the case of a long war a somewhat similar process may happen in relation to many of a country's fixed assets, e.g., buildings, railway lines and equipment, land, etc. During

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the war the activities and resources of the nation will be turned to producing articles of immediate consumption, either for military use, or for the supply of the civil population. It is likely that there may not be enough left over to maintain the plant of the country, as it is called, in good condition. For a few months this will not matter, but, if the war is prolonged, it will be found at the end of it that the plant of the country has run down and needs heavy expenditure to put it again into a state of efficiency. Suppose, for example, that the railway companies of a country in an ordinary year spend £25,000,000 on the maintenance of their roads and equipment, and suppose that during a war of two years, owing to the difficulty in raising capital for such purposes, they should only spend £5,000,000 each year on maintenance. At the end of the two years the capital value of the railway system of the country would be impaired to the extent of £40,000,000, and it may be said that the national capital had been diminished to that extent in the process of paying for the war.

It is impossible to calculate now to what extent the plant of Great Britain or of the other countries at war is being impaired through the retrenchment of ordinary expenditure on maintenance. But there is no doubt that deterioration is going on in many directions, and in this respect all the warring nations are, in a manner of speaking, paying part of their war expenses out of capital.

Source C. Foreign Loans

This method of paying for a war does not require a long description. It is restricted to the case where the Government of a belligerent country is able to get a loan taken up by the investors of some foreign country. The belligerent Government borrows money abroad on its national credit. The same effect would be produced if individuals belonging to the belligerent nation were to borrow money from abroad, and then lend it to their own Government or pay it out in taxes or in other ways use it to support the expense

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of the war. But since it is in most cases impossible for a private person to borrow abroad simply on his credit, but he is obliged, if he wants to raise money, to sell or to pledge some tangible asset, it is permissible to say that money obtained privately from abroad will nearly all be obtained by the realization of capital, and thus will come under the heading of Source B, and that the use of Source C is restricted to the Governments of the nations at war. An example of the use of this source was afforded in the Russo-Japanese war, when both the belligerent Governments raised foreign loans. And again in the Balkan War. In the present war, most of the nations in a position to lend money are themselves combatant, and so far there has been no attempt at raising a foreign loan on a large scale. There have been loans from one Allied Government to another, but these are presumably temporary. Both France and Germany have moreover sold Treasury Notes in New York to pay for their American purchases, but only in comparatively small amounts.

II. HOW WARS ARE FINANCED

HAVING examined the different sources from which a nation may provide for the expense of a war, we must consider the financial methods which may be used to raise the money. These have to be settled by the Government of the country at war, which may determine to raise the means it requires for carrying on the war either by taxation or by borrowing. In the Middle Ages, when the possibilities of taxation were limited and national borrowing had not yet been developed, it was the practice of kings to accumulate a treasure in gold, which they could use when they went to war. Such methods are no longer possible, and, if they were possible, would be wasteful. The so-called war-chests, which are sometimes accumulated by modern governments, are

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not intended to meet the expenses of a protracted war, for which they are quite insufficient, but to supply a reserve of ready cash to be used in an emergency, particularly for the heavy mobilization expenses and demands of the first few weeks.

Taxation is inadequate and unsuitable as a means to meet the expense of a great war. In such a case as that described above, where a nation actually provides the whole cost of a war out of its current income, it would be possible in theory for the Government to raise the whole sum in the form of current taxation. Thus at the end of the war the State would have incurred no fresh debt. But in practice so huge and sudden an addition to the taxes would be intensely unpopular and would wear the appearance of confiscation, and thus damage national credit. A modern Government, therefore, is certain to provide most of its war expenses by borrowing, even though it borrows from its own subjects and borrows nothing but the surplus of their current income. In that case the nation considered as an aggregate of individuals is lending the money to itself in its collective capacity as a State. The people make the loan and it is the people who ultimately repay it, since interest and principal of the national debt fall on the future taxes. But by proceeding in this way, instead of putting the whole cost on the taxes of one or two years, the burden is spread over a long period and it is much more easy to distribute it without causing discontent.

There is one method in which war expenses can be met by what is really an indirect form of taxation, though it does not bear that appearance on the surface. It is a method more in favour with revolutionary than with regular governments, though, when in great straits, there is no nation which may be able to escape it. It consists in the forced issue of paper money. Say that a Government requires £300,000,000. Instead of raising the taxes or issuing a loan, it may simply use its printing presses and strike off currency notes to that amount and by declaring them to be legal

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tender may force them into circulation. Of course it can only force its own subjects to take them, and unless the surplus currency is required for the ordinary internal business of the nation, the currency notes will be depreciated. If there is an undertaking on the part of the Government to redeem them in gold at some future date, their depreciation may be checked by faith in the promise to redeem. But, if the currency is irredeemable, there will be no check to depreciation, until the total value of the volume of currency in issue at any one time has reached the level of the total value of the real currency requirements of the country. Thus prices calculated in the depreciated currency will rise and the holders of currency from time to time will incur a gradually increasing loss through the diminution in the purchasing power of their currency. This in effect amounts to taxation, the incidence of which is uncertain and irregular.

Although at first sight the above may seem an easy and attractive way of raising money, the ulterior effects of deranging the currency system of a country are so serious that no Government with financial foresight would adopt this method to any great extent, unless under the pressure of absolute necessity. It was adopted, as is well known, by the revolutionary Government in France at the end of the eighteenth century. It was again adopted by both parties in the Civil War in the United States and it has been a not uncommon device with revolutionary Governments in South America. But it is generally recognized to be a method of last resort.

There is, however, this qualification to be made of the above observations. When a country is at war, it is an observed phenomenon that it requires a much larger amount of currency for its everyday use than in normal times. This may be put down to a combination of causes. In the first place an unusual amount of buying and selling is going on through the addition of war expense to the normal expenditure of the country, Secondly, owing to the element of uncertainty which is introduced by a state of war,

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business transactions are carried out on a cash basis to a much greater extent than in time of peace, and thus a greater volume of currency is needed for them. Thirdly, there is a pronounced tendency on the part of private persons to hoard their money or at least to keep by them for emergencies a larger sum in cash than they would do in ordinary times. If they hoard gold, it is withdrawn from the currency for the time being and a vacancy is made which can be filled by fresh paper currency. Moreover, it appears that people sometimes hoard the paper currency itself, or at any rate keep a cash reserve in this form.

There may be other causes at work, but the above three can be specially mentioned. At any rate, there is no doubt about the fact that a country at war keeps a much greater volume of currency in internal circulation than the same country does in peace time. The Bank of England's note circulation in the first week of May was over £38,000,000, against £29,500,000 a year before. In addition there were in circulation £40,000,000 of Treasury currency notes, making a total addition to the paper currency of Great Britain of about £48,500,000 as compared with a year ago. It must be remembered that Great Britain uses the cheque as a substitute for currency much more than any other nation. The excess of paper currency in the other combatant countries is far greater. The note circulation of the Bank of France in the first week of April amounted to the equivalent of £456,000,000 as against £237,000,000 a year ago—an excess of £219,000,000. The Imperial Bank of Germany's statement for the same date shows a note circulation equivalent to £268,000,000, as compared with £110,000,000 a year ago—an excess of £158,000,000. In addition to this there appear to be notes of the new Loan-banks in circulation to the value of about £35,000,000. Thus the total excess of the German paper currency as compared with a year before, amounted to £193,000,000.

In Russia the note circulation of the State Bank at

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the same date amounted to £319,000,000, as against £161,000,000 a year ago—an excess of £158,000,000.

The phenomenon of an increased demand for internal currency in a country under war conditions gives to a Government, whose credit is good with its own subjects, an opportunity for raising a sum equivalent to the increase in the demand for currency without necessarily causing any depreciation. It will be seen from the figures quoted above that this opportunity has been taken advantage of very fully in Germany, France and Russia. The increased note circulation of the State Banks of the three countries supplies the Banks with so much extra money for the cost of printing it, and the additional money is loaned to the respective Governments under the arrangements which they have with the State Banks, and helps to meet their war expenditure. It will be observed that the British Government has only raised a comparatively small sum through the issue of paper currency. Moreover, this sum is really much less than it appears, inasmuch as the Treasury is at present holding a reserve of gold against its issued currency notes up to two-thirds of their value, so that the benefit obtained by the Government from the issue amounts not to £40,000,000 but to about £13,000,000.

It cannot be said that in any of the countries mentioned the issue of currency has yet been pushed to a point which involves depreciation. It is true that, judged by the test of the foreign exchanges, both German and Russian paper show a serious fall in value. But the foreign exchanges, especially in war time, are affected by other causes than depreciation of domestic currency. Such depreciation, no doubt, would always cause the foreign exchanges to move against a country: but it may move that way without such depreciation. In the case of France, where the expansion of the currency has been greatest of all, the exchange has remained almost at normal, the adverse movement being slight and fully accounted for by reasons unconnected with the currency.

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It must be recognized, however, that at the end of the war, the excess paper currency which has been issued in the different countries will no longer be required, as each country returns to normal conditions of business. It will therefore have to be redeemed, unless the nations concerned are prepared and able to go on using it as a substitute for an equivalent part of their gold currency. For example, we may assume that France, after peace returns, will not require more currency in issue than she had before the war. The excess of £219,000,000, which she now is using and which has been provided by a paper issue, will flow back into the Bank and will have to be redeemed. It might indeed remain in circulation, if an equivalent amount of gold coin were driven out, that is, if the French people were willing and able to substitute a paper for their gold currency for everyday use, to the extent of £219,000,000. But this is not likely. The excess paper currency will therefore have to be redeemed and the French Government will be obliged ultimately to provide the funds with which to redeem it. In the meantime, it has the use of the money, which thus in effect is a loan bearing no interest.

Since ordinary taxation is inadequate and depreciation of currency is to be avoided, it follows that a State loan is the most proper and convenient method by which a Government can meet the expenses of a war. The loan may be raised from its own subjects, who may find the money out of income, or by realizing their capital, or partly by the one and partly by the other. In this case sources A and B referred to above, namely the national income and national capital, are drawn upon. Or the loan may be raised abroad, in which case source C, namely the wealth of other countries, is drawn upon.

The Government borrowing may take the shape of a long-term issue, such as the recent British or German war loans. In this case the Government borrows the money for a long period of years and does not undertake to repay the principal till the end of that period. In the meantime, it has to pay

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the annual interest on the loan. Or it may take the shape of an issue of Treasury Bills or similar instruments. These represent a short-term loan for six months or a year: and although in special circumstances they can be issued in considerable quantities, they are, of course, merely a temporary expedient. Sooner or later the advances, which they represent, must be converted into a long-term loan.

What limits are there to the power of a first-class Government to raise loans?

If it is borrowing abroad, the limit is set by its own credit and in addition, of course, by the power of foreign countries to lend. If Germany alone were engaged in war—say with China—the German Government could no doubt raise loans in Europe, as well as the United States, to almost any extent, by offering sufficiently attractive terms. But in the present war most of the rich countries are engaged as combatants: the only neutral which has power to lend on a large scale is the United States; and so far, except for a small issue of French and German Treasury Notes, none of the belligerent Governments has tried to borrow there.

But when a Government borrows from its own subjects, its credit is practically inexhaustible and the limit must be set by their power to lend. The processes of modern finance are so intricate and the creation of credit through the machinery of the Banks is so easy, that the layman is sometimes inclined to believe that there is no limit and that a Government can go on borrowing for ever, if it makes the necessary arrangements with the Banks. This belief is apparently being cultivated in Germany to judge by the recommendations of a circular sent out by the Wolff Agency, which is said to have been approved if not instigated by Dr Helfferich, the Minister of Finance. This circular appealed to the savings banks and others to subscribe liberally to the recent German War Loan. It pointed out how mistaken those investors were, who thought that because they had invested their liquid resources in the first loan, they could not subscribe for the second. On the contrary the scrip of

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the first loan was an excellent basis for borrowing money from the ordinary banks or the loan-banks, in order to buy the second.

At first sight not only does the process advised in this circular appear an excellent way of assuring the success of the War Loan, but there seems no reason why it should not be repeated *ad infinitum*. The patriotic German might subscribe his 10,000 marks to the first War Loan and obtain an advance against it: subscribe this advance to a new loan and so obtain new scrip which he would again pledge, and with the new advance so obtained buy yet more scrip, and so on. The offer of the Bank of England to make advances against the scrip of the British War Loan seems to offer similar facilities to the British investor.

But there must be some limit to this chain of progressive borrowing. Let us examine the question more closely by the aid of an imaginary case. Suppose that the private deposits in all the banks of a country, at the outbreak of war, amount to £250,000,000 in value. The Government issues a loan of £250,000,000 which is subscribed for by the private depositors. The immediate result is to transfer the whole of the bank deposits of the country from the credit of private persons to that of the Government. The following month the Government offers another loan of the same amount. The holders of the war loan scrip, following the plan recommended by the Wolff Agency, take their scrip to the banks, who make them an advance against it to its full value. We will suppose, for the sake of clearness, that these advances are made in the form of bank notes, which the banks have power to issue. The position would be the same, of course, if the advances were made simply by the banks giving credits in their books, against which cheques could be drawn: but by supposing them to issue notes the course of events is made plainer. With these notes the public takes up the second war loan: the result is that the notes are immediately redeposited in the banks, to the credit of the Government. The third month a further loan of a

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similar amount is offered and the process repeated: and again the fourth month. At the end of four months the Government has borrowed £1,000,000,000 and there are £750,000,000 of new bank notes in existence all of which, together with the original £250,000,000 of deposits, lie in the banks to the credit of the Government (except so far as it has spent that amount). Evidently, except for the original £250,000,000, what the Government has borrowed is a mass of bank notes created for the purpose and it might have attained the same result in a less roundabout way, by simply printing off the notes and issuing them itself, on its own credit, instead of inviting the banks to do it. It can use the notes, if they are made legal tender, for purchases from and payments to its own subjects. But it cannot force a greater volume of currency into circulation than the business of the country requires. Otherwise, as was explained above, the currency will be depreciated in proportion to the excess. The net result therefore of the process as described above—which is put in an extreme form for the sake of illustration—is simply a depreciation of the currency.

Now let us suppose, what is more likely to happen, that the second loan is issued not a month but a year after the first. By that time the Government will have drawn the proceeds of the first loan out of the banks—still, let us say, in the form of bank notes—and will have spent them on paying soldiers and officials and on the purchase of munitions of war and food and clothing for the army. The bank notes given in payment will have been passed from hand to hand and will have found their way back again to the banks. Thus the volume of private deposits will have been reconstituted. When the Government issues its second loan, the reconstituted body of private depositors will be able to take it up, as they did at first, by transferring their deposits to the credit of the Government, and taking war loan scrip in exchange. The volume of currency will not have been inflated at all. This process may be repeated at the end of the second year and so on. Thus it would seem that the

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borrowing can be carried on *ad infinitum*. But there are two limitations. First, there must be sufficient time between the loans to allow the proceeds of the first to be expended by the Government, to pass into the hands of private persons, and to filter back to the banks, before the next loan is issued. Otherwise new currency in one form or another, either in form of notes or credits, will have to be created to take up the second loan and there will be inflation.

The second limitation is that the proceeds of the first loan must be so expended that they will actually come back to the banks and reconstitute the volume of private deposits. In other words, the services and material required for the war must all be obtained from the country's own people. It is plain that the people in addition must be producing what they are consuming themselves from day to day. Therefore the limitation amounts to this, that in order for the system of progressive borrowing to go on without a hitch, the nation at war must itself produce all that is required for the war in the way of services and material, over and above the necessities of its daily life. Or if it buys any part of its war material from abroad it must produce an equivalent to give in exchange. If this condition is fulfilled, the nation can go on fighting indefinitely, as far as finance is concerned, although no doubt its capital will be depreciating the whole time. The Helfferich method may in these conditions be useful, because it enables subscribers to the first loan, who have not got their money back out of the Government expenditure, still to subscribe again to the second loan, by the assistance of the banks. But it should be understood that the advances which the banks make to them, on the security of their scrip, are provided out of the volume of deposits which has been reconstituted out of the expenditure of the first loan, though the deposits may now be in other names. The nation is meeting the cost of the war mainly out of its current income: and the issue of Government loans, the pledging of the scrip to the banks, and the use of the advances so obtained to subscribe to new loans, are merely financial machinery.

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To put the matter in another way. Say that Germany has an adult male population of twenty millions, excluding children and quite old men. Say that in the course of the war eight millions of these are taken for military service and another two millions are required for the manufacture of war supplies of every kind. If the remaining ten millions, with the assistance of the women and children and old men, can carry on the business of the country, including not only production but transport and distribution and services of every kind, so as to supply food and clothing and the other necessities of life for the whole of the population, combatant and non-combatant, then Germany can go on for an indefinite time, raising internal loans to meet her war expenditure and taking them up from her own resources.

But as soon as the productive activities of the balance of the people, after deducting the soldiers and the armament workers, are insufficient for this purpose, the case is changed. On this hypothesis the total production of Germany becomes insufficient to supply her wants, irrespective of whether she consumes all her products herself or uses a part of them to export abroad in exchange for other articles. If she attempts to increase her import of supplies, she must pay for them. She has, by supposition, no further surplus of commodities, so that she cannot pay in kind. She will have to pay by exporting gold, or by borrowing abroad, or by giving up some saleable part of her accumulated capital. Foreign nations will not take paper currency in payment from her and therefore the issue of bank notes will not help.

In general conclusion it may be stated that the most convenient, as it is the most usual way of meeting war expenditure, is by means of Government loans. The objection to financial expedients such as those suggested by the Wolff Agency is that they may lead to inflation of currency. So long as this is avoided they have the result of absorbing the surplus income and the floating capital of the nation in war loans.

As a matter of policy it is generally desirable that war

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loans should be issued on a permanent basis as soon as possible and that the short-term indebtedness should not be allowed to accumulate. In this particular respect German war finance has been better managed than that of the Allies. Germany has funded the whole of her war expenditure to date by the issue of two great loans. Russia and France have piled up a large floating debt. It would certainly make for financial stability and would probably encourage further saving, if this were funded by the issue of permanent loans. If such an issue is successfully made, the loan passes into the hands of investors, who do not look for their capital to be repaid, but only for the annual interest. Floating debt on the other hand, in the form of Treasury bills or other short-term instruments, remains in the hands of banks and financial houses, who have no intention of locking up their capital permanently. The existence of a mass of debt of this kind therefore may cause instability and uncertainty in the financial situation. The same objection applies to advances made to the Government by a State bank. This method has been largely used by the French Government, the advances of the Bank of France to the State reaching last March the figure of over £180,000,000. A further consideration is that when private investors have used up their free capital in subscribing to a Government loan, they are more likely to make an effort towards fresh saving than if they have large sums in cash lying on deposit in the banks. This effort will be all the stronger, if investors only partly pay out of their own money for the scrip they take up, and borrow the balance from the banks: for then they work to clear off the debt. Thus the issue of a State loan in a form which will absorb private deposits as fast as they accumulate makes for industrial thrift. The same cannot be said of an issue of Treasury bills. The banks take up these in their own name: the deposits are really absorbed, for the banks use them for the purpose: but the private depositor regards his money as still lying at call, and has not the same incentive to save more as he would have if he had invested his money and knew it was tied up.

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III. WAR COSTS AND THEIR FUTURE EFFECT

MANY calculations have been made of the cost of the war to Europe, ranging from £10,000,000 a day upwards. Sometimes the actual war expenditure of the different Governments is taken as the measure of cost. Some calculators add the loss of life at the value of so much a life. Some add the material destruction of property in the invaded districts. Some throw in the money which might have been earned during the war by the armies, had they been productively employed.

The item of Government expenditure is a definite quantity which can be ascertained with approximate exactness. The item of destruction of property in warfare is also a definite quantity, but is much less easy to ascertain. The other items of loss are simply conjectures. It is impossible to say that all the soldiers engaged would have been productively employed: or that the loss of their productive energy has not been to some extent compensated by increased industry on the part of the non-combatant population: or that decrease of production has not been partly balanced by decrease in consumption. Germany will probably produce less scent during the war than she did before: but, if the consumption of scent in Germany diminishes to the same extent, there will be no actual loss of wealth.

In what respects can a nation suffer actual diminution of wealth through war? In what respects will it actually be poorer at the end than at the beginning? We need not go into the question of the additional wealth which it might have accumulated during the period of the war, if there had been no war. In other words, we need not consider the cost of the war, so far as it has been defrayed from surplus national income, but only so far as it has been defrayed from capital. A nation may find itself poorer at the end of a war

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than at the beginning in respect of one or more of the following:—

(a) Reduction of its liquid assets, e.g., stores, material, live stock, coin and bullion, etc., which have been consumed in the war and not replaced.

(b) Loss of its foreign investments or any other saleable assets, which it has realized abroad in the course of the war and of which it has spent the proceeds.

(c) Foreign indebtedness which has been incurred to help to pay for the war.

(d) Depreciation of the national plant and equipment through insufficient sums being spent on its maintenance during the war.

(e) Destruction or damage of property in the course of warlike operations.

(f) Reduction of the national productive capacity at the end of the war as compared with the beginning. This may be brought about in several ways, e.g., by destruction or damage of the machinery of production and transport: by reduction in the labour force through slaughter of men in battle: by derangement of industrial organization through its conversion to the production of warlike stores, and through disturbances in the organization of labour.

The last two items are important, but no sort of estimate can be formed of them in figures, till the war is over. We know that in Belgium and Northern France and Poland and Galicia enormous damage has been done to property. Germany and Great Britain have suffered some damage through losses in their merchant marine. The industrial organization of Great Britain and France and Germany has been seriously deranged. All the belligerent nations have lost a part of their labour force in killed and maimed.

The first four items represent that part of the national expenditure on war, which is met out of capital. They are included in the figures of Government war expenditure, but they do not represent the whole of it. For the Government war expenditure is partly met out of the surplus of

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the current national income. It is only the balance that is met by consumption of stores in hand; by the realization of foreign investments; by borrowing abroad; and by spending on war, money which should have been spent on the maintenance of the national plant.

We can ascertain the figures of Government war expenditure, at any rate approximately. If we could ascertain to what extent this expenditure was being met out of current national income, the balance would be the portion of war expenditure falling on national capital and would be the same as the sum total of the first four items of loss mentioned above.

In the December number of *THE ROUND TABLE* the annual income of Great Britain was estimated at about £2,300,000,000, of which about £400,000,000 was estimated to be surplus income, devoted either to betterment of the national plant or to investment abroad, the remaining £1,900,000,000 being spent in the living expenses of the nation and on maintenance of plant. If these figures are taken as correct and could be supposed to hold good for the period of the war, we might reckon that Great Britain had a surplus national income of £400,000,000 and that by stopping her foreign investments and her internal betterments during war time, she could pay for the war to this extent without encroaching on her accumulated capital. Say that the British Government is spending £900,000,000 a year on the war, including loans to the Allies and to the Dominions. The country would find £400,000,000 of this amount out of income and would have to provide the remaining £500,000,000 by encroaching on its capital in one of the four ways mentioned above. A similar calculation might be made in the case of Germany, whose national income is given at about £2,000,000,000, of which about £400,000,000 is surplus.

But this method of calculation involves two factors of great uncertainty. The first is the extent to which the nation's income is affected by the war, e.g., through the

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curtailment of its output of wealth, or even through the falling off of its income from foreign investments. It is impossible to ascertain what reduction takes place from these causes in the national income during war time. A second factor, which is even more uncertain, is the extent to which the national living expenses are cut down during war time. The greater the reduction in these, the greater the surplus income; and if the national living expenses were to be cut down by more than the reduction in the national income, the surplus would be even larger than before. This latter factor is of great importance both in the case of Germany, where national economy in daily expenditure is enforced as an act of discipline, and in France, where the people have a genius for thrift. It is to be feared that in Great Britain less economy is practised; on the other hand, it is probable that her national income has suffered less reduction than that of either France or Germany.

With these two factors subject to so much variation it would be vain to pretend to draw from the estimates of ordinary annual income and expenditure any definite conclusion about the surplus income of a country in war time. There is, however, another way in which the matter may be approached, and which may be a better guide, in the case of Great Britain, as to the extent to which she is meeting her war expenses out of capital.

In the December article it was stated that in 1913 British imports were valued at £659,000,000 and her exports at £525,000,000. It was estimated that £190,000,000 of the exports was balanced by new capital loaned abroad. This being deducted, the balance of the exports was £335,000,000. This was £324,000,000 less than the value of the imports. How, then, was this £324,000,000 of imports accounted for? According to the estimate then made it represented payments made to Great Britain by foreign nations for: (a) Interest on capital invested abroad, £184,000,000; (b) Shipping freights, £100,000,000; (c) Banking commissions, etc., £40,000,000. This estimate is not far different from that

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made recently by Mr Lloyd George. He estimates our total return from interest on investments, freights, etc., at £350,000,000, instead of the above figure of £324,000,000.

In the quarter ending March 31, 1915, British imports were £208,000,000 in value and her exports and re-exports £106,000,000, leaving a balance of £102,000,000—or at the rate of £408,000,000 a year excess of imports over exports. Mr Lloyd George's figure is £448,000,000, and we will take that. We can assume that for the time being British lending of capital abroad has stopped, except for the loans made to the Dominion Governments and to Allied Governments. Take these at the rate of £200,000,000 a year—they amounted to £80,000,000 last March. This sum must be added to the balance of imports over exports, which is thus increased to £648,000,000 in the year, if the first quarter is taken as a guide, although a part of the loans already made may appear in the form of exports during the first quarter. To meet this we have the foreign dividends, shipping freights and commissions, which Mr Lloyd George leaves at £350,000,000. Deducting £350,000,000 from £648,000,000 still leaves a balance of about £300,000,000 to be paid for. How is this being done? It must be by the realization of British capital invested abroad. There is no other way, unless Great Britain were borrowing abroad, which she is not, or were to manage to reduce her normal imports. We may assume, therefore, that Great Britain in the process of paying for the war will have to realize on her foreign investments at the rate of about £300,000,000 sterling a year.

As an instance of the way this is done, take the City of New York Note issue of \$100,000,000 (i.e. about £20,000,000), which fell due last autumn. This was largely held in London and in peace time no doubt the loan would have been renewed in one form or another. As it was, it was called in and paid off, the funds being supplied by a syndicate of New York Bankers. Again, London has in ordinary times a great deal of money out abroad in the

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form of short-term loans, bills or credits. Since war started, there has been a steady pressure to call these in wherever it was possible. Above all, British investors hold a huge mass of foreign stocks, shares and bonds. By no means all of them are saleable in war time. But among them are American securities estimated to amount to perhaps £1,000,000,000 in value. These or the great part of them are saleable in New York and are actually being sold all the time. America sends the purchase price over to Great Britain in the form of commodities and in this way the extra balance of imports is accounted for.

According to Mr Lloyd George's statement in the House of Commons the total expenditure of the British Government, if the war lasts another year, will during that year be about £1,130,000,000. Of this approximately £200,000,000 will be current expenditure, leaving our actual war expenditure at £930,000,000 for the year, of which £200,000,000 will represent loans to our allies. We have seen above that the nation, in paying for this, will have to realize its foreign investments at the rate of £300,000,000 a year. This leaves £630,000,000 to be provided for.

We can assume that in war time the nation has stopped its ordinary foreign loans—the special Government loans have been allowed for—and also its expenditure on internal betterments. In peace time it spends £400,000,000 a year in these two directions. The diversion of this sum to meet the war expenditure still leaves a balance of £230,000,000. Assuming that the national income and living expenditure remain the same—or, at any rate, that there is the same margin between them as in peace time—this sum of £230,000,000 is being provided by Great Britain out of her internal, as distinguished from her foreign, capital. That is, it is being provided either by consuming accumulated stocks and not replacing them, or by cutting down the ordinary annual expenditure on maintenance of the national plant. If the margin between the national income and living expenditure

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is greater or less now than in peace time—that is, if the surplus income of the nation is greater or less than the £400,000,000 which was given as its normal figure, the balance of the war expenditure to be provided out of internal capital will fall below or rise above the figure of £230,000,000. But in any case we can conclude from the figures given that Great Britain is providing for the war out of her external capital, e.g., her foreign investments, at the rate of about £300,000,000 annually. If the margin between national income and national expenditure is not so large as the figures given above, she will either have to increase still more the sale of her securities or raise foreign loans.

We do not know what the German Government is spending on the war. We know that up to date it has issued two war loans amounting in the aggregate to over £650,000,000. No doubt Germany is financing both Austria and Turkey to some extent. She has borrowed £2,000,000 in America by an issue of Treasury Notes. Germans are also selling their foreign investments. The total value of these has been estimated at £1,000,000,000 sterling. Many of them, e.g., Turkish investments and many South American investments, are not saleable at present. But Germany holds a not inconsiderable amount of American securities, and, since war began, has been selling these steadily. The total amount sold is uncertain. An American authority has estimated that the stocks sold on German account in America during the first eight months of the war amounted to more than £20,000,000 in value and less than £40,000,000.

But Germany, as Mr Lloyd George has pointed out, is in a different position from this country. She is selling very little abroad. But she is buying little too. Her exports and imports are strangled. The fact that the exchanges are heavily against her is nevertheless an indication that she has difficulty in meeting her external engagements. Apart from the handicap to her military operations,

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which we may hope will sooner or later become exceedingly heavy, it is undoubtedly an advantage financially not to have to buy from abroad. The greatest difficulties which face the Allies in the financial sphere are those connected with meeting their external obligations.

So far as internal loans are concerned, Germany, it must be remembered, gains by her large population. If a loan of £400,000,000 is to be raised, the average subscriptions of 70,000,000 people need not be nearly as large as the average subscriptions of 45,000,000 people.

French investments abroad have been estimated at £1,500,000,000, but are probably larger. A large portion of them, however, lies in Russia and cannot be sold at the present time, since there is no one to buy. The same applies to her Mexican, Brazilian and Argentine investments. She holds less American securities than Germany—far less than England—and these are almost the only securities which can be sold in any quantity, while the war lasts.

France, therefore, is faced with a task of no little difficulty in having to meet the very large external obligations which she is incurring, especially as her export trade is naturally suffering very heavily.

Russia's problem is equally, if not more, difficult. For Russia is in ordinary times a debtor nation, and has normally to pay very large sums abroad in interest on her debt. She is now in the position in which she must buy heavily from abroad and at the same time is restricted by her geographical position from exporting her raw materials.

It is for these reasons that England will have to find large sums of money for her allies.

An indication of the extent to which the United States is financing the war through the repurchase of its own securities from the belligerent countries, may be obtained from the trade figures of that country. In the four months ending March 31 last the exports of the United States exceeded the imports in value by \$595,000,000, that is £119,000,000. This is at the rate of £357,000,000 a year.

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The average excess of United States exports over imports for three years before the war was about £100,000,000. At present, therefore, there is an abnormal excess of exports at the rate of about £257,000,000 a year. It may be assumed that with this excess of exports the United States is buying back American securities from the belligerent nations.

Mr Lloyd George said in Parliament that for the year ending December 31, 1915, the war expenditure of the Allies would not fall far short of £2,000,000,000. This implies that Great Britain, France and Russia will on the average each be spending at the rate of between £600,000,000 and £700,000,000 a year on the war. Mr Lloyd George indicated that Great Britain would be spending from £100,000,000 to £150,000,000 a year more than either of the other two. Let us assume that the war lasts for two years. At the end of that time we may expect to see Great Britain with an addition to her national debt of, say, £1,400,000,000, and France and Russia each with an additional debt of £1,200,000,000. Germany has raised over £650,000,000 in nine months—that is at the rate of £1,800,000,000 in the two years, part of which no doubt may be on account of Austria. The total increase in the indebtedness of the two countries will certainly not be short of £2,200,000,000. Leaving out of account the smaller Powers involved, that means a total increase in the national debts of the five Great Powers amounting to £6,000,000,000 in all.

As far as Great Britain, France and Germany are concerned, their new debts will be owing mainly, if not entirely, to their own nationals. A proportion of the new Russian debt will probably be held in France and England, while a part of the Austrian share of new debt will be held in Germany.

British investors will own £1,400,000,000 of British Government loan, probably a substantial amount of Russian loan, perhaps some French loan. On the other

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hand, they will have disposed of at least £500,000,000 and perhaps much more of their holding of foreign, principally American, investments. German investors will hold £2,000,000,000 of new German and Austrian loan and will have disposed of all their saleable American investments. French investors will own the greater part, if not all, of the £1,200,000,000 of new French loan and a part of the new Russian debt, and will probably have sold all of their foreign investments, for which they can find a market.

The United States, which by the export of food, raw materials and manufactured supplies to Europe at high prices is piling up a huge credit balance, will have taken payment for this by cancelling its former loans abroad and by buying back American stocks and bonds from Europe; to a smaller extent perhaps it will settle the balances by making direct loans in one form or another to some or all of the combatant countries. It will have bought back American stocks to the extent probably of at least £600,000,000.

In Great Britain the national plant and equipment will probably have suffered by the cessation of expenditure on maintenance. As we saw above, it seems certain that even at the present moment Great Britain is paying part of her war expenditure by cutting down the amount which she spends on the maintenance of her national plant in time of peace.

France and Germany will suffer in this way still more, since they have not, to the same extent as Great Britain has, the opportunity of paying by realization of foreign investments for that part of their war expenditure which must be provided out of national capital. On the other hand, Germany is likely to gain, at any rate over this country, by the greater, probably far greater, economy of her people.

In all the districts invaded by the enemy there will be a large amount of actual destruction to repair. The making good of this and of the deterioration in the national plants will require a large immediate expenditure, part of which,

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at any rate, will have to be found by the Governments concerned.

In all the belligerent countries there will be an inflation of paper currency, owing to the greater use of currency in war time. This surplus currency will have to be redeemed, this constituting another addition to the war debt. If it is allowed to remain in circulation, after it ceases to be required, a depreciation of the currency will follow, with the evils which ordinarily attend it. The excess paper currency might indeed be allowed to remain in circulation without harm, if the nations concerned were prepared to substitute it for their metallic currency. But it is more than doubtful if they can do this, and even if they could, the rest of the world would not be able to absorb the precious metals which would be given up.

Special provision will have to be made for the reconstitution of Belgium. Regard being had to this, as well as to the other items mentioned above, it is a moderate calculation to say that the addition to the debts of the five Great Powers at the end of two years' war will reach a total of £7,000,000,000. At five per cent this means an annual interest charge of £350,000,000 a year. Beyond this there will be pension charges, which on the most modest scale can hardly amount to less than £100,000,000 a year for the five countries. In all, the additional revenue required to meet the direct charges arising out of the war will thus amount to £450,000,000 annually, divided among the five leading nations. How far these nations will be able to raise this additional revenue, and at the same time maintain their former scale of civil and military expenditure, is a matter which it is beyond the scope of this article to discuss.

The inflation of currency—for redemption is not likely to be immediate—and the scarcity of goods—for the output of articles useful for peace must for some time after the end of war be less than in normal times—will cause high prices to prevail. But the recuperative powers of the

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modern industrial system are very great. With the machinery and methods now in use production can and will be rapidly increased. The prevalence of high prices will be a stimulus to this. On the other hand, high taxation will enforce economy in consumption. High interest rates on capital will add to the burden which industry will have to carry, a burden which after a time will begin to be severely felt.

As the pendulum always swings too far, it is to be expected that the machinery of production will not only be replaced but extended, and that the years of replacement will be followed by an era of over-production, low prices and financial collapse.

In these matters, however, the course of affairs can only be guessed at. The probability is that there will be a time of rapid ebb and flow in financial matters. This would naturally be accompanied with occasional crashes. Up to the present the machinery of credit, through which the world's business is conducted, seems to have been wonderfully little disturbed by the war, and has shown itself capable of quicker adaptation than could have been believed. It does not follow, however, that this state of things will continue, and it must be remembered that the machinery of credit, which is mainly psychological, is just as essential to the conduct of trade and the material well-being of the world as the machinery of production or the machinery of transportation.

One factor which must not be left out of account is the possibility of social unrest and labour troubles arising after the war. It is difficult to say in what state of mind the populations of Europe will be left. It has been suggested that the war may produce a spirit of earnestness. But by bringing a mass of men close to the primitive facts of life it may also awaken the spirit which questions existing conventions; and the modern industrial system, like any other system of organization, depends on the great majority of mankind accepting established conventions without question.

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On the other side, again, it is possible that the desire to repair material losses may be a governing factor in men's minds for some years and may prevent agitation towards new social experiments. The chances for this are better in a country where property is widely distributed such as France, than in a country where the mass of the population own nothing and live entirely by their labour from day to day.

In the building up of industry after the war Germany will have an advantage from the docility with which her people submit to organization for a given end. Great Britain, which has no advantage on either point, will have to trust to the common sense of her people and to the individual energy and initiative which are found here more often than elsewhere and which in industrial matters compensate for many weaknesses.

IV. THE GOVERNMENT'S DUTY

THE foregoing analysis brings into prominence the huge magnitude of the financial task imposed upon this country and the vital necessity both the Government and every member of the community are under, of leaving nothing undone which may in any way contribute to its proper fulfilment.

Let us repeat the facts. Unlike Germany, which is more self-supporting, France, Russia and Great Britain are purchasing and must purchase from abroad supplies of all kinds in enormous quantities; Great Britain and France must purchase food supplies and raw materials; all three countries must purchase munitions of every kind and particularly shells in ever-increasing quantities. The huge bill to the countries, from which these materials are bought, must be paid for. It can be paid for only by the export of goods, or by turning over to these countries the interest

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due on foreign investments, or the freight and commission earned or by the sale of foreign investments or by raising foreign loans or by shipping bullion.

Russia's export trade is practically stopped; she has no foreign investments; she earns very little freight or commission; she has very large sums already to pay to other countries for interest on Government loans; there are great difficulties in her raising a loan in the United States; there is left only this country, to which she can turn.

France's export trade, too, is enormously impeded; she has not a very large amount of foreign securities of a class which can now be sold; she, too, must therefore look to us for assistance in meeting her external engagements. Mr Lloyd George puts our loans to our Dominions and Allies at £200,000,000. Before the end of the war it may be much larger.

What, then, is the position of this country. It was shown above that on the basis of the figures now available, and after making liberal and even optimistic deductions in respect of our earnings in the way of interest on foreign investments, shipping freights and commissions, we shall have a balance against us of £300,000,000 this year, which must be met by the sale of foreign investments. This will be difficult, and in time to come may become impossible. A further alternative is to raise a large loan in the United States. There are great difficulties here too, and in any case only a certain amount could be raised.

There is one other way, and one only, by which the balance against us can be reduced, and that is by the most rigid economy throughout the whole community—such economy as is now being practised by the German people. Every pound's worth of food wasted means a pound's more import, a pound more in the bill against this country and probably a pound more of our vital gold reserve exported. But while waste is unpardonable, to stop mere waste is not enough. We ought to import only absolute necessities, either munitions of war, or raw material for our exports,

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or food and other supplies which we can by no means dispense with. Let us repeat that every pound's worth unnecessarily imported is so much added to our burden, reduces by so much the money available for subscribing to Government loans, contributes by so much to the difficulty of keeping our gold reserve and our system of credit intact, and makes it by so much harder and more expensive to attain our vital supplies of ammunition. The more difficult it is to pay our debts, the more the exchanges will go against us, and the more we must pay for all our imports. Russia is at this moment paying 20 per cent higher than normal for everything she is buying abroad: and Germany almost as much.

It is the duty of the Government to bring these facts home plainly to every citizen of this country. There is too much extravagance and waste both by private individuals and by the Government; there have been in the past mischievous ideas spread abroad about the country's "bottomless purse"; the high wages now being paid are a direct incentive to spending. The Government would perform a great work, if they could by some means encourage and popularize the investment of savings. It should be recognized by every man and woman in the country that rigid economy is vital in order that the country may be able both to pay its debts abroad, and subscribe successfully to the enormous loans which will have to be raised in this country. Not the least valuable service that can be rendered to our cause is the practice of economy, and that service can be rendered by every man and every woman of whatever age and strength.

THE WAR AND INDUSTRIAL ORGANIZATION

IN the March number of *THE ROUND TABLE* it was pointed out—and the argument was emphasized from the experience of Lincoln in the American Civil War—that war brings nations face to face with a new world, with standards and values of its own. For nations like our own and the United States, long inured to peace and accustomed to the open discussions of public affairs, the give-and-take of parliamentary life, the concessions to the susceptibilities of minorities, with which democratic government is habitually associated, the transition to war conditions is peculiarly difficult. But the fact that the struggle is being waged for freedom and democracy does not alter the inexorable conditions of warfare: and the road to success, for us as for Lincoln, lies through a frank acceptance of the facts of the situation and a resolute endeavour to conform, with all the forces at our disposal, to its demands. "Nature," said Bacon, "is only overcome by obedience to her own laws." The same is true of warfare. Nations can only overcome the regime of war and win their freedom to live in peace by a willing acceptance and understanding of its own peculiar laws and conditions.

This principle has already carried the nation far further than Englishmen realized when the war began. Its first and most obvious application was in the call for recruits. Once the needs of the situation were understood hundreds of thousands, even millions, flocked to the recruiting office,

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accepting without cavil or complaint the unwonted conditions of military discipline and the stern obligations of military life.

But it soon began to become clear that the peculiar conditions imposed by war are no longer, as of old, confined to the camp and the barracks, but penetrate far into civil life. Ships and men are of no avail unless they are supported and supplied by the labours of the civil population: and the enormous and unlooked-for expenditure of munitions which modern war entails and the sudden call for the equipment of millions of soldiers inevitably carry the stress and urgency of war-demands into the shipyard and the workshop in a manner unprecedented in any previous war. It is not simply a question, as we have tended to think in the past, of national finance, of an adequate supply of "silver bullets" to meet the vast costs of modern warfare. It is a question of applying the maximum of force at the right moment at the necessary spot. The workshop's duty is not simply, as in time of peace, to meet the orders as they come in at its own time and according to its own working rules. War-conditions have transformed it into a vital part of the complicated and indivisible mechanism which exerts military force against the enemy. An army is no stronger than its weakest link; and if there is difficulty or weakness in the workshop there will be delay or failure in the field, with the inevitable sequel of discouragement, loss of life and the protraction of the war as a whole.

The recognition of this vital connection between the camp and the workshop is rendered all the more necessary by the fact that Great Britain has become the armoury not only for herself but for her Allies. France, Russia, Belgium, Serbia and Montenegro, with practically the whole of their manhood in the field, have serious difficulties to meet in supplying their own needs. Moreover the whole of the industrial area of Belgium and important industrial districts of France, Russia and Poland are in the occupation of the enemy. Neutral nations, more particularly the United

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States, may help to supply the deficiency; but their contributions are dependent on their own needs and policy and cannot be an absolutely certain factor in our calculations. They may at any moment be stopped by their own governments, or their exports may be interfered with on the road. A heavy responsibility for the supply of the Allied armies rests, and must continue to rest, upon the workshops of the United Kingdom.

These considerations are, from the military point of view, axiomatic: they must have been present in the minds of the military advisers of the Government from the first moment when orders for supplies began to be made after the outbreak of war. Yet both the Government and the public opinion of the country failed at first, as the Americans failed at first at a similar crisis, to press the facts home to their logical conclusions. Nobody realized how little our traditional and customary methods of State action, our reliance on unco-ordinated voluntary effort and our aversion to State control, availed to meet the unprecedented requirements of the moment. It took us months to face the fact that the industrial aspect of the war was more than a mere question of ordering munitions from the available workshops, but involved a carefully planned organization, after the Prussian model, of the industrial resources of the nation, including its working population.

It is important to make clear at the outset what is meant by speaking of the Prussian model: for it is, after all, in one sense, the Prussian doctrine of the State against which we are contending. The strength of the Prussian system is that it tells people what to do and they do it. Its weakness is that it does not allow the people to choose what they want to do, or to make clear to themselves why they are doing it. The State stands above the citizens, commanding not only their bodies but their wills and their souls. Freedom disappears from corporate relations and initiative from individual character. In that sense Britain never will and never can be Prussianized. But there are moments in the

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history of free communities when the State must temporarily extend the scope of its authority over the actions of the individual, when the free citizen, in the face of a crisis, no longer desires to exercise his initiative but is willing and even anxious to be told what to do. At such a moment it is the people most used to freedom which is most ready for guidance and most submissive to direction: and what it asks for from its rulers is no longer the freedom of voluntary action but organization and education—to be provided with the means for making its individual action most effective and with the knowledge to understand why its services are needed in particular directions.

Our national attitude towards industry during the war has shown a characteristic failure of foresight and imagination. At the very beginning of the war we accepted the principle of State organization and made a number of important precedents in various directions; but we have been unable or unwilling to face the problem as a whole. Relying on the tradition of freedom and on the voluntary principle deeply rooted in English life the Government has shrunk from the detailed work of organizing the nation for victory. It asked the nation for service and evoked unparalleled energies, but failed to direct them where they would be most usefully and economically expended. The result was a certain waste and dispersion of effort, with the inevitable accompaniment of friction and dissatisfaction. It is worth while recalling a few instances of the policy pursued in the earlier months of the war, not for the sake of recrimination, but in order to show how far both the Government and the nation have since travelled from the habitual attitude of mind with which we entered upon the struggle.

The first relates to what has in recent years become too frequent a feature of British administration—the want of co-ordination between the different departments of the Government. The most glaring example of this was the competition between the War Office and the Admiralty in connection with recruiting. During the autumn the main

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preoccupation of the War Office was, very rightly, to stimulate recruiting, so that the new armies could get forward with their training. But this idea was pursued without sufficient reference to the needs of the other fighting department, or to the equipment of its own soldiers, and recruiting campaigns were even organized in ship-building areas. Even when the needs of home service on ships and munitions were recognized fresh friction was not avoided: for the two fighting departments both issued medals for war-service, each with a standard of merit of its own.

A second instance relates to the arrangements for the provision of munitions. No attempt was made by the Government to cover the engineering industry as a whole or to issue authoritative instructions to employers and workpeople. Scores of firms which were in a position to make munitions were not definitely told of the State's requirements and so went on executing private orders rather than incur the expense of installing new machinery before they were sure it would be wanted. It is only recently, for instance, that the bulk of the Lancashire firms engaged in making textile machinery have adapted their works to take on Government orders. The same criticism applies to the organization of labour. Thousands of necessary skilled workmen from engineering works, clothing factories, collieries and other vital services were allowed to enlist, although their services were at the time far more urgently needed in manufacturing the rifles and equipment without which the new recruits could not become an army at all.

A third instance was the manner in which the work of educating the nation as to the issues and the seriousness of the war was neglected. After four speeches from the Prime Minister in the early days of the war, and a few from other members of the Ministry, a silence fell on the land and was maintained unbroken for months. The nation was left to "do for itself." The various episodes of the struggle as it proceeded, the intervention of Turkey, the fall of Antwerp, the march on Calais, the hard-won victory at Ypres, passed

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without illumination and almost without comment from those in authority; Parliament sat for the briefest periods; and the Press was unnecessarily hampered in its provision of news and controlled in its discussions by the restrictions imposed by the Censorship. The nation was ridden in blinkers. It was asked to make unparalleled sacrifices, while no good reasons were vouchsafed to it for doing so. It was inevitable that this should cause some failure on the part of large classes of the community to realize the nature of the struggle which lay before it, and delay the process of subordinating party and local interests to the primary duty of concentrating every ounce of the national energy on the prosecution of the war.

But perhaps the most conspicuous instance of lack of foresight and resolution was in connection with the Labour question. For months the output of munitions for the contemplated advance was left unorganized, exposed to all the hazards and friction of the ordinary competitive struggle between Capital and Labour. It is true that the outbreak of the war brought about a temporary suspension of industrial disputes. But as the first burst of enthusiasm evaporated, it became increasingly difficult to maintain, without conscious arrangement, the unbroken front which had been secured under the first shock of war. Difficulties of various kinds sprang up: the strain of overtime and speeding-up began to tell on the workers: the absence of a clearly thought-out and organized system in the industry was increasingly felt: and at last, after six months of war, the Government felt bound to bring the matter to the public notice. Even then it was not yet regarded as a first-class matter and was left to be dealt with by a subordinate. On February 8, Mr Tennant, the Under-Secretary for War, referred to the subject in the House of Commons; but the apologetic manner in which he did so showed how far the Government still was from seeing the problem in its true proportions. "Important issues," he said, "must be involved in the denudation of the labour market of large

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numbers of men of military age and of military physique. If I might address myself to my hon. friends below the gangway (the Labour members) I would appeal to them to help us, the Government, to organize the forces of labour. I would ask them to help us that where one man goes to join the colours his place may be taken by another not of military age and physique. I would ask them to assist the Government also in granting—only for the period of the war—I lay stress on that—some relaxation of their rules and regulations, especially in the armament works.”

This timid and cautious appeal from a representative of a Government which the nation had willingly endowed with the fullest powers of decisive action showed a misconception both of the needs of the situation and of the attitude of Labour; and the practical suggestions contained in it, closely scrutinized, reveal themselves as singularly ineffective. They were ineffective because they attempted to cast upon the Trade Unions a responsibility which, at a time like the present, could only be exercised by the Government itself. It is not possible for Trade Unions or employers or for any other authority in the country except the State to control the flow of recruiting from the various industries and, in Mr Tennant's phrase, “to organize the forces of labour.” It was ineffective also in its suggestion that the Trade Unions should surrender their hard-won rights and regulations for a bare Government guarantee that they would be restored after the war. The suggestion, well-meant as it was, opened up difficulties of the greatest complexity to Trade Unionists, as the very guarded reception of the appeal made clear, and they could not be expected to acquiesce in it without some much more definite scheme of agreement than the unconditional suspension recommended by Mr Tennant. The Trade Union rules in question have been the product of years—in some cases generations—of conflict and bargaining; they are regarded by the workmen in the industries concerned as the charter, if not of their industrial self-government (for that still remains to be won)

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at least of their industrial security: no Trade Union leaders—least of all the Parliamentary Labour party, whose political position does not necessarily entail its members being Trade Union leaders at all—could be expected to surrender them without both an equivalent sacrifice on the part of Capital and a careful consideration of what the State guarantee for their recovery really implied.

A similar criticism attaches to the suggestion that the Labour leaders should facilitate the employment, in place of recruits, of workers “not of military age and physique,” in many cases, of course, women. A Trade Unionist’s first corporate duty is to uphold the standard of life and wages in his trade. It is natural that he should view with suspicion and disfavour anything which would have the effect of impairing that standard. The introduction into his trade of a mass of new workers, many of them women, all of them presumably non-Unionists and new to the customs of the trade, without any guarantee for the future, must inevitably seem to him prejudicial to his corporate interest: it is even not unnatural that, with the memory of industrial conflicts fresh in his mind, he should regard it as a “capitalist dodge.” The best comment on the ineffectiveness of Mr Tennant’s proposal is supplied by the following, which appeared in the *Morning Post* of Friday, March 5, under the unconsciously ironical heading “THE CALL TO ARMS”:

A deputation from the Executive Committee of the National Amalgamated Union of Shop Assistants, Warehousemen, and Clerks waited upon the Under-Secretary for War (Mr H. J. Tennant) at the War Office yesterday, with reference to his recent speech in the House of Commons, where he suggested that women could be largely employed in the grocery trade in order to free men for the front.

Mr J. Turner, Secretary of the Union, pointed out that the Executive took a broad view of the matter, but were, of course, anxious that this should not bring down the already low standard of wages and conditions. They wanted to know what would become of the women when the war was over, for employers ought to give a guarantee to reinstate the men who had enlisted. The interview was private, but it was afterwards stated that Mr Tennant, having

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acknowledged the patriotic way in which shop assistants had already enlisted, said the Government could not guarantee their reinstatement after the war. It was a matter for the employers, but he would bring the question before the Parliamentary Recruiting Committee to see if they could get employers to give some guarantee.

This brief extract will be sufficient to make it clear that the Government's plan of appealing to the good offices of the Labour Party showed that they were still chary of facing the essential problem of organization. It is impossible to deal with the labour problem in this piecemeal manner, because the difficulties that require to be overcome, in the mind of the workers, relate not to the present but to the time after the war. Working class leaders have of necessity, and as a result of their continual experience, to exercise forethought and to think ahead of the existing emergency; they are in a position to foresee difficulties as a result of the action which the Government called upon them to take—difficulties against which only the Government can protect them. It was inevitable that the policy embodied in Mr Tennant's appeal should be abandoned and replaced by a concerted effort, on the part of all the interests concerned, to meet the inter-related problems of the present and future organization of labour.

But it needed a sharper incentive than the non-committal replies of Labour leaders to convince the Government that a systematic and comprehensive Labour policy was needed. It was supplied by the sudden realization of a widespread uneasiness (unrest would be perhaps too strong a word to use) among the working population throughout the country, as a result of the serious decline in their real wages owing to the steady and alarming rise in the price of food and necessaries. According to the figures given by the Prime Minister himself on February 11 the wholesale prices of wheat, flour and sugar were between 72 and 75 per cent higher in February, 1915, than in February, 1914, while retail food prices, as a whole, already showed a rise of between 20 and 24 per cent over the figures of July, 1914,

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and the July figures, as Mr Philip Snowden reminded the Premier in the debate, themselves represented a rise of $16\frac{1}{2}$ per cent above those of 1900. In other words, the real value of a wage of £1 a week in 1900 amounted in February, 1915, to 14s. $1\frac{1}{2}$ d., whereas, according to the Board of Trade returns, the rise in wages during those years has only been 5 per cent, or a shilling in the pound.*

The Government's handling of the problem was not felicitous. When amid universal expectation it was raised by the Labour members in the House of Commons, the Prime Minister gave a lucid exposition of the reasons for

* Since February prices have risen still higher. The following figures, taken from a carefully compiled statement printed in *The Federationist* for May, 1915, show the expenditure of an average working-class family of four people during one week in 1899, 1914 and 1915.

	1899	1914	1915
	s. d.	s. d.	s. d.
Bread (16 lb.) . . .	1 8	1 10	2 8
Bacon (1 lb.) . . .	0 11	1 2	1 3
Cheese (1 lb.) . . .	0 6	0 9	1 0
Flour (3½ lb.) . . .	0 5	0 5½	0 9
Butter (1 lb.) . . .	1 0	1 2	1 4
Biscuits (1 lb.) . . .	0 6	0 8	0 9
Tea (½ lb.) . . .	0 9	0 10	0 11
Sugar (2 lb.) . . .	0 3½	0 4	0 6½
Meat (4 lb.) . . .	2 2	2 10	3 4
Eggs (6) . . .	0 3	0 6	1 0
Ham (½ lb.) . . .	0 7	0 9	0 10
Jam (3 lb.) . . .	1 1	1 5	1 6
Golden Syrup (2 lb.) .	0 6	0 6½	0 6½
Fish (3 lb.) . . .	0 6	1 0	1 6
Soap . . .	0 6	0 7	0 7
Oil (1 gallon) . . .	0 7	0 10	0 10
Coals (1 cwt.) . . .	1 0	1 5	1 9
Wood . . .	0 3	0 3	0 4
Sultanas (1 lb.) . . .	0 2	0 2½	0 8
Currants (1 lb.) . . .	0 4	0 4	0 4
Potatoes (8 lb.) . . .	0 4	0 4	0 4
Soda (1 lb.) . . .	0 1	0 1	0 1
Rice (1 lb.) . . .	0 3	0 3	0 3
Milk . . .	1 0	1 0	1 3
Blue . . .	0 1	0 1½	0 1½
	<hr/> 15 8½ <hr/>	<hr/> 19 8 <hr/>	<hr/> 24 5½ <hr/>

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the rise in the demand and the diminution in the supply of the various commodities, but had little to suggest in the way of remedies. If the aim of the speech was to allay the discontent in working-class circles it certainly failed in its object. Its arguments would have caused no resentment had the Premier succeeded in convincing the country that there was really nothing which could be done, and if he had boldly appealed to the patriotism and self-sacrifice of the community—if, in other words, he had evoked what Mr Lloyd George happily called the "potato-bread" spirit. But instead of appealing to patriotism he appealed to history and to political economy. Speaking a week later, on February 17, when the effects of the Prime Minister's speech on working-class opinion had begun to make themselves felt, Mr Snowden summarized its argument with a brutal terseness which certainly echoed the opinion held of it by those for whom he spoke. The purport of the Premier's speech was, he said, "First that the state of things, however bad it might be, is not so bad as it was expected to be in the sober judgment and well-informed knowledge of people six months ago. The second point was that, bad as things might be, there was a time in the history of this country when things were quite as bad; and the third point was that if the poor people of this country who are suffering from the present high prices of the necessities of life would only continue to starve till June, it was possible that some relief might be afforded to them." And he added caustically with regard to the point that things were not so bad as they were expected to be, "In making that statement the Prime Minister condemned the want of foreknowledge and lack of action on the part of himself and his Government."

The result of the Prime Minister's speech, with its appeal to the laws of supply and demand, "the gigantic stuffed policemen," as the working classes regard them, "who keep watch over Rent and Profits,"* was to recall

* The quotation is from Graham Wallas, *Human Nature in Politics*, p. 13

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the mind of Labour to its everyday mood and to revive the passions and suspicions of the ordinary industrial conflict. Workmen had watched with interest the vigorous steps taken by the Government in the autumn to help the Stock Exchange and the big financial houses out of their difficulties. They confidently expected similar measures on their own behalf. The disillusionment which followed on the Premier's speech caused a perceptible change of atmosphere in the country. It was felt not only in the great armament works and shipyards, where men who had been working overtime at high pressure for months were becoming increasingly conscious of the physical and nervous strain, but in millions of ordinary working-class homes where the weekly budget went a little less far every week and not least among the three million members of co-operative societies, the élite of working-class intelligence, who were in a position to measure by comparison the exactions of the retail dealers in food and coal.*

An agitation was immediately set on foot throughout

* The following extract from a letter from Mr B. Williams, Secretary of the southern section of the Co-operative Union is of interest in this connection:

"At the Kingsway Meeting I stated that the Woolwich Society as well as others was then selling coal at 5s. per ton less than the rising prices, although they had to buy coal at higher prices than they had contracted for. I also said that a few merchants, immediately after war broke out, had bought up 10,000 tons of New Zealand cheese at £63 to £67 per ton, which they were selling at £90 to £93 per ton, showing to them a profit of £250,000 on this one transaction. If the Co-operative Wholesale Society had bought the cheese they would have made no extra charge. They would have treated cheese as they treated sugar—sold their stocks, as long as they lasted, at prices as they stood before the war. When Peek, Frean & Co. and Huntley & Palmer raised the price of their biscuits 10 and 15 per cent all round, the C.W.S. continued for months to sell at the old prices.

"There cannot be any doubt that merchants, farmers and manufacturers have made large fortunes out of the state of things existing since war broke out. A firm of millers at Cardiff made £370,000 profit—over £1,000 a day—on a capital of £1,000,000. The C.W.S. has a capital of over £10,000,000. Part of its business is that of milling. It has the biggest mills in the world—much bigger than the Cardiff firm. Its profits on the whole year, on all its turnover of £35,000,000, were about three-quarters of a million. It returned nearly all to its members, who are working folk. This is a very striking comparison."

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the country to press the Government to take more drastic action. It culminated in a Conference held in London on March 12, presided over by the leader of the Labour Party, and attended by representatives from Trade Unions, co-operative societies, and municipal authorities, including the Corporations of Glasgow, Bradford, Birmingham and Dublin. Resolutions were passed urging the Government to take steps to control the supply and reduce the price of both wheat and coal. There was a distinct note of menace in the speeches of some of the Labour representatives. It was clear that seeds of suspicion and mistrust had been sown which were likely to bear fruit in open manifestations of impatience and discontent.

Meanwhile the organization of Labour, relegated by Mr Tennant to the Trade Unions, was making no progress. The situation in the armament works and shipyards, now busier than ever preparing munitions and equipment for the contemplated advance and for the operations in the Dardanelles, grew more and more unsatisfactory. Minor disputes were of constant occurrence all over the country, and output was increasingly hindered through bad time-keeping. Six months of long hours and "speeding up" were making their mark. Overstrain, frayed nerves and tempers, suspicions of "capitalist exploitation," a sense that large profits were being made out of their extra exertions, combined to bring about a great change in the atmosphere of the workshop from the willing enthusiasm of the early days of the war. But the greatest difficulty of all lay in the question of Trade Union rules. Owing to the urgency of the moment, the denudation of the Labour market, and the constant necessity of adjusting the existing personnel of a workshop to meet emergency demands, it was very difficult for employers to avoid infringing the established Trade Union regulations for the demarcation of labour. A single instance may make the problem clear. A Government boat came into a certain private shipyard for instant repairs. Not sufficient shipwrights being at hand,

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joiners were asked to help them in the work. As a protest against this contravention of craft rules, hitherto invariably respected by the employer in question, the shipwrights stopped work. In cases like this the action on both sides is intelligible enough. The employers were bound, as a patriotic duty, to try to meet the emergency. The shipwrights could hardly fail to protest in some way against a precedent which imperilled their hard-won corporate rights without any guarantee that they would be subsequently restored. The main reason why the question caused friction and delay on a piece of vital national business was the want of foreknowledge and lack of action on the part of the Government which made it almost inevitable that some such situation should arise.

At last a dispute more serious and far-reaching than the accumulation of minor troubles which has been mentioned forced the Government to recognize the difficulty and to face its own responsibility for meeting it. The engineers in the Glasgow district had been working under a three years' agreement, made in January, 1912, which precluded them from sharing in the large increases in money wages secured by other organized workers in the district during the good trade of those years. In June, 1914, before the war, in view of the approaching expiration of the agreement, the Glasgow District Council of the Amalgamated Society of Engineers decided that a demand should be made in the new agreement for an increase of 2d. an hour. The usual notice of a proposed change is four weeks, and on December 7, 1914, the demand was sent in to the Employers' Federation. The details of the subsequent negotiations do not concern us here. The men's view is that the employers used the war as an excuse for postponing the consideration of their demands. The employers' view is that the demand was unreasonable in itself. The men's leaders appealed to the workers in the national interest against a stoppage of work and recommended a compromise at 3d., but the men refused and, no agreement

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satisfactory to them having been reached by February 16, the shop where the discontent was strongest broke off the negotiations and came out on strike. Others followed, and by the end of the month fully half the engineers in the district had stopped work.*

It was at this juncture that the Government took action. The Chancellor of the Exchequer, in the course of an eloquent speech at Bangor on February 28, revealed the urgent needs of the Allies in respect of munitions of war and reminded the workers that this was an "engineers' war" and that the defence of the country rested ultimately as much upon the men in the workshop as on the men in the trenches. It was absurd, he cried, that precious time should be wasted and lives lost on a question of an extra farthing an hour. He appealed to the men to go back to work pending a decision, and a small committee, consisting of Sir G. R. Askwith, Sir George Gibb and Sir Francis Hopwood was appointed, with a wide reference, to arbitrate on industrial disputes. Meanwhile, on February 26 Sir G. Askwith had sent a letter to the Employers' Federation and the Trade Unions concerned insisting on the resumption of work on Monday, March 1, as urgent military requirements were being delayed. It was, however, not till three days later that, yielding to pressure from the Executive Committee of the Union, work was fully resumed. A few days later Sir G. Askwith's Committee gave its award. It gave the men a penny an hour and a ten per cent advance on piece-work rates, thus at once throwing over the decision arrived at by the men's representatives and ignoring the principle laid down by the men themselves. The men had asked, not for a decision which split the difference, but for a rise in real wages to make up for

* On the details of the Clyde situation see a well-informed statement in the *New Statesman* of March 27, 1915. One fact is, however, omitted there, viz. that the action of the men in coming out was regarded by the employers as an infringement of the procedure agreed upon between the employers and the Union, embodied in a somewhat loosely-drawn charter of "Provisions for Avoiding Disputes."

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the increased cost of living. As the Government had failed to lay down a definite principle for the guidance of the arbitrators the arbitrators themselves might have done so. As it is the award has only sown seeds of fresh trouble and left the position on the Clyde little less unsatisfactory than before.

The fact is that Mr Lloyd George's oratory and the awards of his nominees had little effect on the men, because, however tactful in detail, they carefully avoided going to the root of the trouble. It was all very well to encourage the armament workers by describing them as "soldiers of industry," but the men knew very well that, if their work was as valuable as that of their comrades in the trenches, the conditions under which it was performed were entirely different. In strict and literal truth, however useful to their country their work might be, they were not working for the State, but for private employers—employers who, as they believed, were already profiting largely by the war, and will profit still more by the adoption of speeding-up methods. What Mr Lloyd George and the Press asked of them appeared—and not unnaturally—to be a one-sided sacrifice. The only way to cure the trouble and to restore confidence, not only on the Clyde but in the armament industry throughout the country, was for the Government to demand equal sacrifices from both sides and to organize the whole industry in accordance with the national need.

It was to this solution that, in the early days of March, the Government was at last driven. Powers to take over the engineering industry as a whole were secured by an enlargement of the Defence of the Realm Act, and arrangements were at once made to consult the representatives of the interests concerned. Mr Lloyd George, who was handling the matter on behalf of the Government, first had a three days' conference with the representatives of the numerous Trade Unions—no less than thirty-five in all*—

* The more important of them were the Amalgamated Society of Engineers, the National Transport Workers' Federation, the Amalgamated

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concerned with the industry. He won their support at the outset by announcing to them that the sacrifices were not going to be all on one side. "We propose," he said, "to impose a limitation of profits because we can quite see that it is very difficult for us to appeal to Labour to relax restrictions and to put out the whole of its strength unless some condition of this kind is imposed." He then outlined alternative proposals for the settlement of disputes by arbitration, including the suggestion of a Court on which Capital and Labour should be equally represented. He also asked the Conference to sanction "a complete suspension, where necessary . . . for the purpose of increasing the output, of all rules and regulations which have the effect of restricting the output."

The Chancellor succeeded in carrying the Conference with him. On March 19 an agreement was arrived at with all but one of the unions concerned, and on March 25 the outstanding union, the Amalgamated Society of Engineers, came into line with the rest, having secured some additional safeguards. This agreement and the provisos involve so important a new departure that they are worth printing *in extenso*.

ACCELERATION OF OUTPUT ON GOVERNMENT WORK

Memorandum of proposals which the Workmen's Representatives agreed to recommend to their members at a Conference with the Chancellor of the Exchequer and the President of the Board of Trade, held at the Treasury, on March 17-19, 1915.

The Workmen's Representatives at the Conference will recommend to their members the following proposals with a view to accelerating the output of munitions and equipments of war:

(1) During the War period there shall in no case be any stoppage of work upon munitions and equipments of War or other work required for a satisfactory completion of the War:

Society of Carpenters and Joiners, the Boiler-Makers' and Iron and Steel Shipbuilders' Society, the National Union of Railwaymen, the General Federation of Trade Unions, and the Parliamentary Committee of the Trade Union Congress.

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All differences on Wages or conditions of employment arising out of the War shall be dealt with without stoppage in accordance with paragraph (2).

Questions not arising out of the War should not be made the cause of stoppage during the War period.

(2) Subject to any existing agreements or methods now prevailing for the settlement of disputes, differences of a purely individual or local character shall unless mutually arranged be the subject of a deputation to the firm representing the workmen concerned, and differences of a general character affecting wages and conditions of employment arising out of the War shall be the subject of conference between the parties.

In all cases of failure to reach a settlement of disputes by the parties directly concerned, or their representatives, or under existing agreements, the matter in dispute shall be dealt with under any one of the three following alternatives as may be mutually agreed, or in default of agreement, settled by the Board of Trade.

(a) The Committee on Production [that is Sir G. Askwith, Sir G. Gibb, and Sir F. Hopwood.]

(b) A single arbitrator agreed upon by the parties or appointed by the Board of Trade.

(c) A court of arbitration upon which Labour is represented equally with the Employers.

(3) An Advisory Committee representative of the organized workers engaged in production for Government requirements shall be appointed by the Government for the purpose of facilitating the carrying out of these recommendations and for consultation by the Government or by the workmen concerned.

(4) Provided that the conditions set out in paragraph (5) are accepted by the Government as applicable to all contracts for the execution of war munitions and equipments the workmen's representatives at the Conference are of opinion that during the war period the relaxation of the present trade practices is imperative, and that each Union be recommended to take into favourable consideration such changes in working conditions or trade customs as may be necessary with a view to accelerating the output of war munitions or equipments.

(5) The recommendations contained in paragraph (4) are conditional on Government requiring all contractors and sub-contractors engaged on munitions and equipments of war or other work required for the satisfactory completion of the war to give an undertaking to the following effect:

Any departure during the war from the practice ruling in our

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workshops, shipyards and other industries prior to the war shall only be for the period of the war.

No change in practice made during the war shall be allowed to prejudice the position of the workpeople in our employment, or of their Trade Unions, in regard to the resumption and maintenance after the war of any rules or customs existing prior to the war.

In any readjustment of staff which may have to be effected after the war, priority of employment will be given to workmen in our employment at the beginning of the war who are serving with the colours or who are now in our employment.

Where the custom of a shop is changed during the war by the introduction of semi-skilled men to perform work hitherto performed by a class of workmen of higher skill, the rates paid shall be the usual rates of the district for that class of work.

The relaxation of existing demarcation restrictions or admission of semi-skilled or female labour shall not affect adversely the rates customarily paid for the job. In cases where men who ordinarily do the work are adversely affected thereby, the necessary readjustments shall be made so that they can maintain their previous earnings.

A record of the nature of the departure from the conditions prevailing before the date of this undertaking shall be kept and shall be open for inspection by the authorized representative of the Government.

Due notice shall be given to the workmen concerned wherever practicable of any changes of working conditions which it is desired to introduce as the result of this arrangement, and opportunity of local consultation with men or their representatives shall be given if desired.

All differences with our workmen engaged on Government work arising out of changes so introduced or with regard to wages or conditions of employment arising out of the war, shall be settled without stoppage of work in accordance with the procedure laid down in paragraph (2).

It is clearly understood that except as expressly provided in the fourth paragraph of Clause 5, nothing in this undertaking is to prejudice the position of employers or employees after the war.

(Signed)

D. LLOYD GEORGE
WALTER RUNCIMAN
ARTHUR HENDERSON
W. MOSSES

(Chairman of Workmen's Representatives)

(Secretary of Workmen's Representatives)

March 19, 1915.

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AGREEMENT BETWEEN THE GOVERNMENT AND THE AMALGAMATED SOCIETY OF ENGINEERS

Dated—March 25, 1915.

The Amalgamated Society of Engineers, in giving their adherence to the various clauses of the memorandum, asked that the following statements made by the Chancellor should be put on record:

(1) That it is the intention of the Government to conclude arrangements with all important firms engaged wholly or mainly upon engineering and shipbuilding work for war purposes, under which their profits will be limited, with a view to securing that the benefit resulting from the relaxation of trade restrictions or practices shall accrue to the State.

(2) That the relaxation of trade practices contemplated in the agreement relates solely to work done for war purposes during the war period.

(3) That in the case of the introduction of new inventions which were not in existence in the pre-war period the class of workmen to be employed on this work after the war should be determined according to the practice prevailing before the war in the case of the class of work most nearly analogous.

(4) That on demand by the workmen the Government Department concerned will be prepared to certify whether the work in question is needed for war purposes.

(5) That the Government will undertake to use its influence to secure the restoration of previous conditions in every case after the war.

The agreement was recommended by the Trade Union representatives to their members and duly accepted by them, and a Labour Advisory Committee was set up to watch over its operation; it was also communicated to the employers, with whom Mr Lloyd George had a number of conferences, although no similar employers' committee was appointed. It was certainly successful in tiding over an awkward situation; and to have brought the parties together in the temper prevailing at the time was in itself no inconsiderable

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achievement to the Government's credit. It may, therefore, seem a little ungracious to point out that, apart from the welcome change of atmosphere, the agreement in itself did little to lay the foundations of a durable settlement or to avert the possibility of further disputes. Closely scrutinized, indeed, it bears within itself the seeds of fresh trouble, for the root difficulties of the situation are left unsettled.

This can be best exemplified by taking three cardinal points of danger and seeing how the agreement deals with them. The first is the question of wages disputes. Three different plans are put forward in the agreement for submitting these to arbitration; but no arrangement was arrived at, nor, it appears, even discussed, as to the principles which should guide the arbitrators in their decision. This omission is peculiarly unfortunate at a time when bonuses and other forms of stimulus to individual groups of workmen are in vogue. In the absence of definite instructions different arbitrators are likely to adopt different standards of treatment, and a certain amount of caprice is certain to creep in—or to appear to creep in—to the awards, evoking dissatisfaction on each side. It would have been easy for the Government to secure the assent of the men to the principle of equality of sacrifice: in other words that the rise in wages should be not more than sufficient to make up for the extra cost of living. This is all that Labour has asked for, and is still asking for. A golden opportunity was lost of laying it down in set terms that Labour, like Capital, should not make profit out of the war, and that the arbitrators should therefore be guided by the pre-war rate of real wages.

A second, and, to all appearances, more serious omission in the agreement relates to the question of employment after the war. An attempt was indeed made by the engineers (see paragraph 5 in their memorandum above) to remedy this deficiency, but its wording is so vague and the future outlook so uncertain that it is doubtful if it is of any real value. The suspension of Trade Union rules

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necessarily brings with it as a consequence that the trades in question will be overstocked with skilled labour after the war, when both the old and the new hands are available in the labour market. The new workers are likely to be a serious source of danger to Trade Unionism, as they will be available in the form of a potential blackleg reserve in the case of a strike. Against this contingency, and the consequent likelihood of an attempt on the part of employers to reduce the wage-rates in the trades concerned, the agreement seems to afford but little protection. It does indeed secure "priority of employment" to the original workers, but nothing is said as to wage-rates, and no guarantees are provided against the employment of blackleg labour. It must be remembered that the close of the war will not only release a vast host of soldiers for civil life, but will temporarily throw out of employment a considerable proportion of the workers now engaged on war-contracts, whose numbers are calculated at upwards of two and one-quarter millions. Nobody can estimate how great is the volume of private trade which is being held up by the war, but the readjustment must necessarily take some time. What is certain is that at the close of the war tens, even hundreds, of thousands of workers will be thrown on the labour market, and that, in the scarcity of capital, employers will have to pay higher rates in order to obtain investors' money. Under these circumstances wage-rates are certain to be affected, and employers will be less than human if they fail to play off the new workers against the old. It is surprising that the Trade Union leaders should not have used the opportunity to initiate preparations for a careful scheme of registration to cope with the difficulties of demobilization and the cessation of war-work, and to secure the most explicit guarantees to save themselves and the country from the industrial chaos which can be predicted.

But the most important omission of all concerns the question of the sanction for the carrying out of the agreement. Arrangements between Capital and Labour partake

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of the nature of international agreements: it is difficult to make absolutely sure of their enforcement or to secure penalties for their non-observance. The causes of international law and of industrial democracy alike rest upon a tradition of strict fidelity to existing engagements. Cases have not been wanting during the last few years (and their importance has naturally been exaggerated by enemies of Trade Unionism)* in which "scraps of paper" have been set at nought; but in an agreement of this vital importance even the possibility of non-performance should not be entertained, and it would have been well to create a precedent, and to make definite provision for penalties in the case of individual breaches. If the Union leaders had assented to a clause assuming clear responsibility for the carrying out of the agreement, and undertaking to disallow the benefit of their Union to any member contravening it, their action would have met with the satisfaction of the employers and would have been a valuable addition to the moral and administrative authority of the Unions in dealing with matters of workshop discipline. But Trade Union leaders are apt to be slow of initiative, and as the Government was disinclined to press them another opportunity was allowed to pass.

Here then for the present these particular difficulties remain. Dissatisfaction is still rife in various parts of the country and small sporadic disputes are not infrequent. The relations of Capital and Labour are left in a state of dangerous equilibrium, exposed to shocks at any moment. Owing to the absence of a sanction and to the cumbrousness of the proposed arrangements for arbitration, parts of the Agreement are already inoperative or have been so from the first. Demarcation difficulties are still constantly arising and there is no authority capable of settling them without delay. Employers find it easier to follow the line of least resistance and respect the prejudices of their workers. The

* On this point see the Report of the Industrial Council for 1914 on Industrial Agreements.

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workers, emboldened by this attitude and anxious about the future of Trade Unionism, feel justified in maintaining their old position. Meanwhile large bodies of organized workers, such as the miners and postal workers, are claiming that their losses in real wages should be made good. Prices are still rising, and evidence is accumulating that large profits are being made by the dealers in food-stuffs and coal.* The Government's failure of imagination and inability to grip the mind of the nation has led to an accumulation of difficulties which will need careful and resolute handling.

Meanwhile the Government have not been idle. If they have so far shrunk from creating new precedents to ensure industrial peace they are certainly now making a serious and comprehensive attempt to organize the nation both as regards war-work and recruiting. A Central Committee has been established on which both the War Office and the Admiralty are represented; and local committees are working in connection with it in numerous centres. Steps are being taken at Birmingham, Newcastle and elsewhere to secure every possible skilled worker for the various trades, and a so-called "release" Committee has been set up to bring back from the colours men who can be more valuable in the workshop. It was in connection with one of these local committees that the Premier paid his recent visit to Newcastle: and his speech there at last brought home to the nation at large, not only the urgency of the problem but the detailed organization, both central and local, that is required to meet it. Similar efforts are being made to facilitate recruiting in the occupations where men can best be spared. Women are being registered for war-work in trades where they can be employed and a Home Office Committee has been appointed to facilitate the readjustment of conditions in the distributing trades, so as to allow the release of men to join the colours;

* "The enormous profits made by Messrs Spillers and Bakers (Limited), millers, of Cardiff, this year as compared with last year—£368,000 as against £89,000—continue to attract widespread notice and comment. It is said in milling circles in London that the firm could not help making all this money."—*The Times*, April 27, 1915. See note on p. 570 above.

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in both these directions, however, Labour interests are still being ignored or left at the mercy of private guarantees.

Yet the situation as regards munitions of war still remains dangerously chaotic. No less than five separate central committees have been appointed from time to time to deal with this problem, each occupying time and brains and making inquiries and demanding returns from business men already overdriven: the Prime Minister's original Committee, appointed last September, Sir G. Askwith's Committee on Production, the Labour Advisory Committee, the War Office Committee, with Mr G. M. Booth as Secretary, and the combined War Office and Admiralty Committee with Mr Lloyd George as Chairman. These Committees may all have useful duties; but their functions are neither defined nor co-ordinated, and they have no power to act. Employers who desire their help in any particular difficulty find it impossible to discover which body to approach, and are too often discouraged by non-committal or negative answers in matters of urgency. The consequent confusion and perplexity can be better imagined than described.

The object of this article, however, is not to criticize but to make clear the magnitude of the problem and to suggest ways and means of dealing with it. There is little to be gained now by going back over the events of the last ten months and pointing out the troubles that have arisen owing to a failure to realize the nature of the problem. The mistakes of the past cannot be fully repaired. But they can in some measure be corrected and their bad consequences arrested. The following suggestions are put forward in the hope that they may point the road to greater unity and efficiency in the future.

(1) The Government have now taken over the whole of the engineering and other industries, using the powers which they took in the Defence of the Realm Act (No. II) of last March. This step was necessary from the first to help the contract departments of the War Office and Admiralty.

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But the nature of the help that these departments needed has not been properly understood, and they have consequently become the targets for a good deal of unfair criticism. They have proved themselves perfectly competent to do the work for which they were appointed—namely, to place the orders for the supplies needed by their Services. But their powers were and remain limited, and in two vital respects they need to be supplemented by further organization. Firstly, they are unable to work in co-ordination, and therefore must necessarily compete one against the other. Secondly, they have no control over the Labour Question, except the very limited power in connection with Fair Wages clauses; their functions end with the placing of contracts. The help they need therefore is not in the expert work which they are accustomed to handle—the diverse and overlapping committees which have been appointed are in some ways less competent for their ill-defined functions than the experts they were put in to control—but in these two specific directions. The question of co-ordination between Government Departments is really a Cabinet matter which cannot constitutionally be relegated to an *ad hoc* Committee. It is for the Cabinet, or the Committee of Imperial Defence, to decide the relative urgency of howitzers and submarines and to see that the less urgent claims of one department yield precedence to the more urgent needs of the other. It is suggested that if this control from above were properly exercised the various Committees should make way, and that the Government should appoint, in their stead, a Central General Committee, in touch with the Board of Trade, to deal with Labour questions and to settle disputes, supplemented by Local Committees with powers to deal with all small disputes and matters of urgency. On all these committees, the representatives of the employers and of the workers should have a place side by side. By so doing the State would not only be asserting the control which it

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has already assumed over the trades concerned; it would also be creating an important precedent in the internal government of industry. The war has revealed the full importance of the position occupied by the Trade Unions in the industrial government of the country. For the first time in their history their leaders have been summoned to confer with the State, not on questions of wages and hours or on any particular points in dispute, nor as a result of agitation on their part, but on the problem of the organization of their industry as a whole. The State has thus formally recognized a state of things to which the public has been steadily growing accustomed—the existence of a dual authority in the Government of Labour. The men are represented by their Trade Union leaders, who command their confidence. The other elements in the industry—the elements of capital and management—are represented by the employers. Normally these two elements are, if not at war, at least in a state of armed peace, not unlike the condition of Europe since 1871. The war, by recalling both sides to a sense of their common interest and their common citizenship, has for a moment brought them together. But so far no advantage has been taken of the opportunity to create any permanent machinery for their co-operation. The Labour Advisory Committee and the employers' War Office Committee are working separately, in watertight compartments. Responsibility is divided, and disputes and misunderstandings are the result.

(2) A strict limitation of profits on all war-contracts should be provided for. Arrangements should be made and published for a State audit, with the necessary guarantees of respect for confidential information. Allowances should be promised for depreciation and for the installing of new machinery, but for nothing else. The lack of definiteness on the Government's part with regard to Mr Lloyd George's promised limitation of profits and equality of sacrifice is a cause of great and increasing suspicion in the working class.

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(3) Following on the limitation of profits the State should lay it down in set terms that the only increases in wages to be paid during the war should be those justified by the increased cost of living. No bonuses or extra attractions should be allowed. The State should fix a definite scale of wages and, so far as possible, also regulate hours in all grades of labour throughout the armament industry. This measure is necessary, not only to redress inequalities which inevitably lead to disputes, but to prevent competition between different firms for labour. Now that work is plentiful and workers relatively scarce men are constantly being attracted from one firm to another by the offer of higher wages, and craftsmen are spending many hours in the train going to and fro from one job to another when they should be in the workshop.

(4) The Government should undertake the responsibility of keeping the armament industry supplied with sufficient and suitable labour. The State already possesses, in the national system of Labour Exchanges, machinery admirably suited to this purpose; but it has so far only been very partially used. Instead of leaving to the Labour Exchanges the thankless task of filling up the gaps caused by misguided recruiting the State should empower the Exchanges to regulate the flow of enlistment and to control the distribution of labour in the national interest. In the case of its own employees the State has not hesitated to exercise its discretion in allowing or refusing permission to enlist. It should exercise similar power in the spheres of industry for which it has now assumed a direct responsibility. One of the most pressing needs in the armaments industry is continuity of work. It is obvious that output can only be maintained at its maximum if the volume of labour power remains constant. The State would therefore seem justified in laying it down, as a corollary to the fixing of wages, that no man should leave his work, or be eligible through the Labour Exchange for other employment, unless his removal

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had been sanctioned by the Local Committee, on which Labour would be represented. Similarly, any man dismissed by his employer should have an instant right of appeal to the Committee for reinstatement.

(5) A sanction should be provided to enforce the observance of these arrangements. All cases of infringement should be referred by the Committee to the Trade Union of the man concerned, and the Trade Unions should undertake, in case of proved infringement, to deprive the worker in question of the benefits of his membership. Employers should also be held strictly to account for breaches on their part.

(6) The Trade Unions should agree to suspend all demarcation regulations for the period of the war and to exercise their authority in quelling all disputes in this connection. In return the State should promise to take definite steps, by a system of registration, so as to enable it to safeguard the workers, after the war, against the dangers to which they will be exposed by the glut in the labour market and the existence of a large reserve of potential blacklegs.

(7) More attention should be paid to the health and efficiency of the individual workman. Want of consideration in this connection is responsible for much of the loss of time and other slackness complained of in the recent White Paper. Arrangements for housing and feeding should be more carefully considered; the men's health and comfort should be studied and care taken to avoid excessive fatigue and overstrain. The need for munitions is too pressing to allow time for mutual recriminations or "muddling through."

These suggestions are not put forward as a counsel of perfection but as a practicable experiment. They might still at this stage go far to overcome the difficulties that have arisen; for, considered without prejudice and with a single eye to the needs of the country, they should command the

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assent of both Capital and Labour. We have come to see that industry is the second line of national defence and that, as Ruskin said fifty years ago, just as the duty of a soldier is to fight, and, if need be, to die for his country, the duty of the manufacturer and the worker is to provide for it. The nation under the stress of war has firmly grasped this principle. It is for the Government to apply it and to turn it to the best account.

THE FOUNDATIONS OF PEACE

I. CAUSES OF THE WAR

THERE is a general agreement to deprecate premature discussion of the terms of peace. In so far as the caution is prompted by the desire to concentrate attention on the more pressing practical business of winning the war, it is entirely sound. We have not won the war yet, and we have far to go and heavy losses to endure, before we can talk about success or about imposing conditions. Wrangling about the bear's skin can only lead to waste of effort and distraction from the primary task of winning the war. But there is an aspect of the peace problem about which we cannot think too much. If the Allies are to be really successful, the peace must give effect to the objects, for which they are fighting. Yet how many of us are clear about what these objects are? We plunged into the war, shocked and unprepared, because we suddenly realized that the German danger of which we had heard so much was upon us, and because we vaguely understood that the purpose of Germany threatened our own freedom and that of Belgium and France, and that her designs must somehow or other be wrecked, if our honour and the future of liberty were to be secured. The majority of us have not got very much further to this day. We are agreed that the German armies must be defeated and some indemnities paid, and we are all of us ready to subscribe to some phrase, for instance that Prussian militarism must be

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overthrown, which represents, with convenient vagueness, our ideas of how the evil against which we are struggling is to be destroyed. But as to what that implies we are still in the dark. Yet we are neither likely to fight the war to the right finish, nor to exert our whole influence in favour of the points which are vital in the settlement, unless we are clear in our own minds as to what it was that caused the war, how far the causes can and ought to be removed by force of arms, and how far they can and must be removed by other means. It is the purpose of this article to attempt some consideration of this subject.

II. THE PRICE OF AUTOCRACY

THERE is a curious resemblance between the history of France between the Great Revolution of 1789 and the fall of Napoleon in 1815, and the history of Modern Germany since its organic unity in 1870. In the former case the French people, casting off the trammels and authority of the *ancien régime*, achieved in a few sharp blows social equality and civic freedom. They acquired at the same time a tremendous consciousness of organic unity. They were no longer subjects of a king; they were a nation, with a mission and a rôle. But they had had no training in democracy, and after a few years, in which they reduced the government of their own country to chaos, and set out, in the name of freedom, to overthrow the governments of their neighbours, they were forced to acquiesce in the autocratic rule of a genius, who alone seemed competent to restore order and peace. But to Napoleon, the autocrat, the first consideration was the maintenance of his own power. And in his efforts to preserve this he found himself driven first to destroy real liberty in France itself, and afterwards to attempt to overthrow it in Europe as well. In order to maintain his upstart power, and secure himself from all interference and control,

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not only were the French people deprived of political power, but the Press was muzzled, the schools and the universities were converted into seminaries for teaching loyalty and obedience to the Emperor, and the whole manhood of the country was drilled and disciplined in a vast military machine. At the same time he was ever under compulsion to dictate to or coerce his neighbours outside, for the only way, in which he could compensate the French for the heavy-handed discipline, which lay upon them at home, was by flattering the new national pride by victory abroad. Thus driven, partly by his own intolerance of any equal, and partly by the necessity of justifying his exercise of absolute power, he overthrew, one after the other, the Powers which refused to submit to his authority and his will. With England and Russia alone he failed, for in neither case was he able to enforce his tyranny by the sword. And eventually his domination so stirred the dormant spirit of liberty that it united all the States of Europe in the great effort, which cast off his rule.

So with Germany. For years the people of Germany, stirred by the wars of liberation, had longed for unity. But they were never able to achieve it until Prussia, under the direction of Bismarck, threw Austria out of Germany and overcame by force the selfish particularism of the minor German courts. The union of Germany, as the outcome of three overwhelmingly triumphant wars, did for the Germans, what the revolution and the early successes of Bonaparte did for France. They became suddenly conscious of an organic sense of unity previously unknown. They were no longer the subjects of more than thirty German kings and princes, united only by language and a common heritage of literature and music, and by the shadowy authority of a powerless confederation. They had become the German people, welded in the fire of battle, the strongest power in Europe, the new race, which having found itself after centuries of disunion, oppression and abasement before its neighbours, was going to astonish the world.

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The events of these years created in the German people a profound confidence in their rulers. The democrats, who had attempted to unite Germany on popular lines from below, and who had failed, were discredited. Bismarck and his autocratic governmental machine, which had imposed unity from above, were regarded as the creators and the mainstay of German unity and power. Moreover, the Prussianized government, like Napoleon, was a marvel of practical efficiency, and proved itself no less competent to deal with the problems of the new empire than with the problem of unity itself. It gave the people practically everything they could desire. It gave them security and internal order. It removed the old barriers to internal trade. It fostered industry at home and commerce abroad. It provided for the sick and unemployed. It was liberal in its patronage of education. It gratified the national spirit by asserting Germanism throughout the world, and under its direction Germany made unparalleled strides in strength and influence. On one point alone the government was adamant. It would give the people no share in its power. On the contrary, like Napoleon, it used every method at its disposal to thwart and retard popular government. Through its control of education from the primary schools to the universities, it taught that the first duty of the citizen was to obey the constituted authorities of the young and successful Germanic State. It used the powerful discipline of universal military training for the same purpose. It continued to exert its influence upon him even in after life. Through the press bureau a constant stream of edited news and comment played upon public opinion, checking criticism of Government policy and ever holding out the suggestion that only by supporting loyally the system which had won the triumphs of 1866 and 1870, could still greater triumphs be certainly won.

In course of time, the general conviction grew up, actively fostered by the governing classes, that the German system of life and government, loosely described as *Kultur*,

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was the greatest achievement of the human race. It was definitely compared with the democratic kultur of the Western powers and of America, and was judged to be superior. Germans contrasted the precision and strength of their own government, the discipline and order of their own people, their matchless development in the sphere of commerce and industry, with the apparent slovenliness of democratic States. They compared the silent efficiency of their own government of men of action with the endless speechmaking of politicians. They saw only the military unpreparedness, vacillation, and weakness of democratic governments, the disorder, want of discipline and self-sacrifice, of the democratic peoples, and in every respect they approved of their own ideas and ways, and despised those of their neighbours. They came gradually to believe that as the new and superior race, inspired and organized by the system, which Bismarck had created, and under its direction, they were bound to prevail, first in the economic sphere, and afterwards in political influence and power throughout the world.

This new Germanic State became an end in itself. It was the creation of German genius, the incarnation of German Kultur. At any cost, whether to Germany or to her neighbours, it must be made to prevail, for it was the bearer of a new gospel to man, the gospel of the "will to power," which was to triumph over the older democratic gospel, the will to liberty and justice. It asked for no other title to respect and influence than that, which its physical strength gave it. It based its whole existence not on right, but on what it could win by might, and it set out to make its way to the first place in the world by the ruthless use of force, by the diplomacy of terror, or, if need be, by frightfulness and war. One element alone demurred. The Social Democrats challenged the essential principle on which the Prussian State, with its philosophy of force, was based. For they demanded that the government should cease to be autocratic, and should become responsible to the people;

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that it should no longer rest its authority on military power, but on the enlightened suffrages of a self-reliant people. But the Social Democrats were a minority—though a steadily growing minority—and they were never able to dissuade a majority of the people from their support of the German constitution, nor were they able, under that constitution, to restrain the government in the slightest degree from its ruthless policy of force.

So long as Bismarck was at the helm, quiet reigned in Europe. Germany was satiated, and needed a period of rest for internal organization and recuperation, and the prestige of Bismarck himself was a sufficient support for the Government. But with the advent of William II a grave change came over the scene. The new Emperor was himself excessively ambitious. Moreover, he needed success to justify the continued tenure of autocratic power. In fact, the same impulses, which had driven Napoleon into a career of external expansion, now began to operate upon William II and his Government. The only way, in which they could permanently withstand the movement towards democracy, was by pandering to the nationalist pride of the German people, and promising success abroad in return for obedience at home. The preaching of the "new course" during the latter years of the nineteenth century, the unfolding of the vision, that Germany was to repeat in the sphere of *welt-politik* the triumphs of 1864 and 1870, and by the same militarist means, had an immediate effect on a people already inspired with ambition, and devoid of that critical political judgment, which comes only from democratic responsibility for public affairs. Within a very few years both Germany and her rulers were committed to a policy of expansion by force of arms, which was bound to bring her into conflict with her neighbours. The history of that policy from its first beginnings, in the ultimatum to Japan, the interference in the Transvaal, the journey to Constantinople, and the Navy Bills of 1898 and 1900, to its final consummation in the Austro-Serbian ultimatum

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was traced in detail in the last issue of *THE ROUND TABLE*.*

Its main characteristic throughout was that Germany could neither tolerate an equal nor deign to negotiate on friendly terms. She had to be predominant and she had to impose her will. When, therefore, the German Government discovered that as the result of its restless policy abroad and its expansion of armaments at home, the neighbours of Germany were beginning to settle their differences and to draw together in self defence, its immediate instinct was to prevent the rapprochement and reassert its own predominance by force. Accordingly the immediate outcome of the Anglo-French agreement of 1904, which though it related solely to North African spheres of influence, indicated clearly enough that a defensive Entente might follow, was the ultimatum to France of 1905, resulting in the forced resignation of M. Delcassé.

Three years later the rulers of Germany showed that this act of violence was not an accident or the outcome of ignorance or of suspicion unwarranted by the facts. After the Morocco crisis a determined attempt was made, especially by the new Liberal Government in England, to satisfy Germany, and to prove that the Entente was not an attempt to ring her in, but a combination prompted, partly by the desire to improve international relations by substituting friendly agreement for competition, and partly by fear of the aggressive intentions of Germany. But the only outcome of the reductions in the British naval programme and of the Hague Conference of 1907 was a new German Navy Act in 1908, and an ultimatum to Russia in 1909 compelling her, and all the other Powers concerned, to acquiesce in the tearing up of the European treaty of 1878 under pain of war. As Prince Bülow said, the real purpose of the Bosnian coup was again to assert German military predominance in Europe, after the comparative defeat at the Algeiras Conference, in order to open the way once

* "The Schism of Europe," *THE ROUND TABLE*, March, 1915.

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more for the expansion of Germany by force in the outside world. But, when two years later she attempted to reap the fruits by compelling France to concede impossible demands in Morocco under pain of war, the Powers of the Triple Entente united in refusing to submit to the threat, and Germany, meeting with a resistance for which she was not prepared, had to withdraw.

The German autocracy, by its disregard of the rights and feelings of others, and its policy of armed intervention in any matter, in which its interests were involved, had thus put itself in an impossible position. On the one hand, by forcing its pacific neighbours to combine in self defence, it had not only closed the door to expansion abroad, but it had lost that position of military predominance in Europe, which Bismarck's sagacious and tolerant policy had won, and which was essential to its own policy of armed aggression in the outer world. On the other hand, by so doing, it had undermined its own position, by proving to its subjects that the whole dream of world power, which it had pictured as the reward for docile obedience to itself, might never come true. Before it stood an inexorable dilemma. Either it had to restore confidence in its own ability to make good its promises of ascendancy in the outside world, or sooner or later it would be compelled to surrender to democracy at home.

It fell back upon the one argument, which autocracy understands, the building up of more armed force, with which to back its will. Every effort was made, especially in the early months of 1912, to bring home to the German Government that the Entente was absolutely unaggressive, that it was caused by fear of German aggression, not by hostility to, or jealousy of, Germany itself, and that, if Germany, already far stronger than any other Power, absolutely secure from successful attack, not only in her own strength, but in her defensive alliances with Austria and Italy, would give some proof of her intention to maintain the peace and respect the liberties of Europe,

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genuine friendship, the settlement of every outstanding question, and the satisfaction of her legitimate desires in the outside world, would follow. But the autocracy would not listen. It had the whole tradition of Prussia behind it. It could not compromise. To negotiate and not to impose its will would look like weakness and would destroy its own prestige. It was not content that Germany should be a great Power; she must be the greatest Power. The Government, therefore, rejected every overture for a reduction in programme or for naval holiday. It attempted to procure an undertaking from England that she would in no circumstances join in a war in Europe, to which Germany was a party, thus deserting France and leaving the way open for an almost certainly successful war of aggression on the part of Germany. It inflamed the fear and animosity of the German people against France and Russia by an indefatigable press campaign, and on the top of it it expanded armaments on a colossal scale. A new Army Act and a new Navy Act were passed in 1912, and an immense Army Act, increasing the peace strength of the German army from 544,000 to 870,000 and providing £50,000,000 for capital expenditure on military equipment was passed in 1913. At the same time there was begun that amazing preparation for war in neighbour countries by spies and other means, which has been one of the chief surprises of the last year, and the final proof of the intentions of the German General Staff.

The principal dynamic cause, therefore, of that diplomatic division of Europe, which made possible war on the present gigantic scale, has been the ambition of modern Germany. The average Briton feels much sympathy with the claim that Germany has been ringed in and has not had the same chance as others in the outside world, and that she is only attempting in this war to assert a natural right. He is often inclined to believe that, had our diplomacy been more considerate and generous, in Morocco for instance, or over the Bagdad railway, Germany might have been appeased and war might have been averted. The facts afford

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the answer to these misgivings. Germany, with her people corrupted by the want of political responsibility, and her rulers ever driven towards aggression by the necessity of preserving their own position at home, has pursued for twenty years a policy of calculated selfishness, regardless of the rights and liberties of others, and has replied to every resistance to her will by fresh armaments. To seek for the main origin of the war elsewhere is to blind oneself to the truth. Germany has been "ringed in," because only in combination could her neighbours protect their own liberty. She has failed in diplomacy, only because she has opened every negotiation with the threat that war would follow, if her exorbitant demands were not conceded in full. No concession and no conciliation in the past would have averted war with a Power, which aspires to the position of tyrant among nations, and no concessions and no conciliation will avert another war in the future, so long as that autocratic ambition reigns.

III. THE GERMAN-MAGYAR ASCENDENCY

BUT Germany by herself could never have contemplated a successful attack on the liberties of Europe. The actual outbreak was due to an identity of interest between the Governments of Berlin and Vienna in a policy of aggression. The Austro-Hungarian Monarchy contains slightly over 50,000,000 people, of whom about half are Slav by race. Yet the whole direction of its policy is in the hands of the German and Magyar oligarchies. Moreover, in Hungary, the non-Magyar races are actively oppressed. The Slovaks and the Southern Slavs have been denied political rights. Their language and literature, their education, and even their economic development, have been thwarted and hindered in every way. It was this policy of repression, which created the situation leading to the outbreak. The hopes of the Southern Slavs for liberty and progress became centred in

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one of two aims—their union with the Serbs as an independent State outside the Monarchy, or the concession of autonomy within the Monarchy, together with a share in the direction of its destinies. The rulers of Austria-Hungary were also divided into two, or rather three, schools: a definitely Austrian school, mainly composed of the followers of the Archduke Ferdinand, which proposed to solve the difficulty by gradually revising the Austro-Hungarian constitution, so as to give autonomy and a share of power to the Slavs; a Hungarian school, which refused any concession capable of diminishing its own power and privileges, and whose solution was to Magyarize the Southern Slavs by force, and to obliterate the independence of Serbia and incorporate it in the Monarchy; and in close co-operation with this Hungarian school, an ultra-German clique in Vienna which was bent on breaking the power of the Slavs as a dangerous obstacle to the Germanic *Drang nach Osten*. The success of the Serbs in the Balkan War had greatly raised the hopes of the Southern Slav extremists and the Serbian ambitions. The assassination of the Archduke removed the chief moderating influence in the Monarchy, and threw the whole power into the hands of the Hungarian party of forceful ascendancy and their ultra-German Viennese allies.

There was thus created an exact identity of interest between those in control in Vienna and Berlin. In Germany the ruling classes felt that some drastic act in the foreign sphere was necessary after the rebuff of Agadir, if Germany was to continue in her upward career, and if the prestige of the autocracy was to be restored. In Austria-Hungary the ruling classes felt that it was essential to crush Serbia, before the movement of unrest among the Southern Slavs had come to a head. Moreover, there was another and a greater vision in common. The two governments were able to control for military and diplomatic purposes not only the manhood and resources of the Germans and the Magyars, but those of 25,000,000 people of Slav and other races as

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well. If they could launch a concerted attack at a moment of their own choosing with the armies and resources of nearly 120,000,000 people, success was almost certain. And success would not only give them a new lease of power, but would transform the world. On the one hand Russia would be rolled back and forced to turn her face eastwards and away from Constantinople and the Balkans. Austria-Hungary would then have an unchallenged ascendancy over the Balkans, and the aspiration for independence of the Southern Slavs would be destroyed for ever. On the other, the power of France to resist would be finally overborne, and the ascendancy of Germany in Western Europe would be established beyond question. Further, success would leave an invincible combination of military States under German influence, stretching from the North Sea to the Persian Gulf. The minor European Powers, their last hope of support for liberty gone, would no longer be able to resist the pressure on them to enter the *Zollverein* as the first step towards incorporation. The policy of the other Powers would be chiefly governed by their desire not to incur the hostility of an invincible Germany, and the way would be open at last for armed diplomacy in the outside world, or, if England still stood across the path, for that final settlement with the island Power, which the earliest dreamers of the dream had foretold.

To people brought up to the gospel of power, whose only aim was the elevation and expansion of their own country and civilization, who had no feelings for the liberty of others, the stakes were almost the greatest ever played for. Moreover, the chance might never come again. If they delayed, the Slavs might assert their influence in the Monarchy, the Magyar and German ascendancy might be undermined, and Austria-Hungary might withdraw from the orbit of German influence and policy. The Entente, too, might become a definite alliance, ready and prepared for resistance to aggression. At the time it was not. Russia was in the throes of military reorganization. France, though she had passed the

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three years law to meet the new German Army bills, had recently disclosed terrible gaps in her preparations. England had been lulled into a renewed sense of external security after her success at Agadir, and was on the verge of civil war. Germany and Austria-Hungary, on the other hand, had recently increased their armies and equipment and were ready to the last rifle and man.

Hence the policy of the ultimatum. It promised sure advantages, and the possibility of a success as dramatic and far-reaching as Bismarck's. If, as the less warlike elements in Germany probably hoped, the Powers of the Entente hesitated or gave way, Serbia would be crushed, the predominance of the central powers in the Balkans would be established, the confidence which alone could bind the Entente together would be destroyed, and Germany's diplomatic and military ascendency over Western Europe would be restored without the cost of war. If, on the other hand, as the military party hoped, the Powers of the Entente resisted the armed attack on the European system, the onset of 120,000,000 people in arms, at a moment of their own choosing, would be irresistible, and the great dream would come true: Germany would be master of Europe, the way to the outside world would be open, and the position of her rulers would be secured for years. The introduction of the 48 hours time limit made war practically inevitable from the start, for it took the control of events out of the hands of the civil authorities, who may have wanted peace, and put it into the hands of the General Staff, who certainly wanted war.

The second great cause of the war, therefore, was the situation in the Austro-Hungarian Monarchy, which first enabled the Hungarian oligarchy to oppress the Slavs to a point, causing a movement of revolt, and threatening their own power and privileges, and which then enabled the autocratic rulers of Germany and Austria-Hungary, thus driven to desperate measures, to utilize the lives and resources of more than 25,000,000 people of other races to establish their ascendency over Europe.

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IV. NEGLECT OF THE BALANCE OF POWER

THERE was one other contributory cause of the war, about which we must be clear. The rulers of Germany and Austria-Hungary would not have attempted their desperate coup, unless they had felt fairly confident of success. The outbreak would not have occurred, if the Powers of the Entente had maintained a balance of defensive force equal in amount and readiness for action to that, which Germany and Austria-Hungary were able to bring to bear in support of their aggressive policy. Severally the Entente Powers had increased their preparations. Russia was reorganizing her army as rapidly as she could. France, though unprepared in many most important respects, had brought into force the three years service Act as the answer to the German Army Acts of 1912 and 1913. Great Britain had responded to the German Navy Act of 1912 by a supplementary estimate for naval construction. But the one step, which could have made these measures effective, and would probably have prevented the war, was never taken, a public and definite arrangement between Great Britain, Russia and France, openly avowed to the people of the world, providing for common action in the event of Austro-German aggression, and for common precautions against surprise.

If it becomes clear that one Government proposes to attack its neighbours in the interest of its own aggrandizement, there is only one course for those neighbours to adopt; to make such military and naval preparations in common, that success cannot possibly attend such an attempt. Then the aggressive Power may change its policy and become a law-abiding and tolerant member of the family of nations. If it does not, it will incur rapid and certain defeat. As will be seen later, this is the principle which underlies all national measures of defence. There was in this case ample evidence of the intentions of the rulers of Germany.

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After ten years of propaganda about *welt-politik*, coupled with restless diplomacy and expansion of armaments, Germany openly substituted might for right, as the basis of European polity, when she demanded the dismissal of M. Delcassé in 1905 under threat of war. In 1909 she made her attendance at the Hague Conference, specially summoned to discuss the possibility of disarmament, conditional on that subject not being raised at all. In 1908 the practical answer, which she made to the British overtures, when the standard British programme of four Dreadnoughts per annum was reduced to three in 1907, and to two in 1908, was a new Navy Act greatly increasing her already enormous programme. In 1909 she again demonstrated that she was going to win her way by force, by compelling Russia and all other Powers to acquiesce in the tearing up of a European agreement under threat of war, an act which convinced the British Government that conciliation was interpreted as weakness, and led to the laying down of eight Dreadnoughts in 1909 as necessary to the security of the British Empire. Two years later she again opened negotiations with France by a threat of war, only to find that the Entente Powers were united in their intention to resist by force the third attempt made by Germany in six years to "dominate and dictate" the policy of Europe.

The Agadir crisis revealed the true basis of European peace—namely, that the only safeguard against constant armed blackmail by Germany was a combination of the pacific Powers to resist it. One final effort at conciliation was set on foot. Lord Haldane went to Berlin early in 1912 to try to induce Germany to profit by the lesson of 1911, to abandon her mailed-fist diplomacy and her reliance on the expansion of her armaments, and to substitute goodwill and friendly negotiation for competition and jealousy in international relations. But the negotiations failed, as all previous negotiations had failed, on two points. On the one hand Germany made it clear that the indispensable condition to any political understanding was a guarantee from Great Britain

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that she would not, under any circumstances, fight against Germany in a European war—in other words, that she would desert France and break up the Entente, and leave to Germany a free hand to go on with her mailed-fist diplomatic hold-ups, and to crush liberty in Western Europe at her own time and in her own way. On the other hand Germany would give no undertaking about stopping the expansion of her own armaments. Indeed at the very period of the negotiations she introduced a new Army Bill and a new Navy Bill.

Nothing could be clearer than the end to which, consciously or unconsciously, the rulers of Germany were drifting. After the negotiations of 1912 failed, and still more so, when the news of the impending military programme for 1913 became known, raising the peace strength of the German army from 544,000 to 870,000, and providing for a capital outlay of £50,000,000 on forts and munitions of war, it ought to have been clear that the only way of averting war and of making the liberty of Europe secure, was for the Entente Powers to make the combination, which had preserved both peace and liberty at Agadir, a permanent and definite element in the European polity. Nothing else could have had any effect on the rulers of Germany and Austria-Hungary. The overtures of pacifism and friendliness had been rejected. The expedient of conciliation had failed. The hopes of the aggressive party in Germany rested on the belief that the Entente was neither solid nor prepared, and that they would be able to take its members in detail or at least in disorder. The only way of helping the peace party was to prove this belief to be vain. Yet, though the events of the two following years had proved that the policy of Germany had not changed, nothing was done.

The responsibility for this and for inadequate preparation in other ways need not, and ought not, to be considered now. But it is clear that a great part of it rests with us. We made no adequate preparations to defend France and Belgium. No explanations even were made to the electorate

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about the increasing danger in Europe, or the necessity for readiness and preparation. We allowed ourselves to be misled by the pacific manner of Germany during the London Conference, and to be distracted from foreign affairs by internal trouble. We never faced the real meaning of the Agadir crisis of 1911 and the Army Bills of 1912 and 1913, but drifted in a blind and baseless hope, until it was too late to prevent the great plan from being set in motion, and the only course left open to us was to save our honour and to uphold liberty by plunging into the war.

It is said that if we had entered into open and defined relations with France and Russia, they would have taken advantage of the opportunity to attack Germany and Austria-Hungary. It is conceivable that such a danger might have arisen in the future, but the discretion of determining whether a war was aggressive or defensive would have rested with us, as it rested with Italy in 1913, and manifestly the danger of recent years was not aggression on the part of France and Russia, neither of whom were prepared, but on the part of Germany, which had taken the lead in the race of armaments and had three times in six years brought Europe to the verge of war. Other people urge the opposite view, that the war was inevitable and that nothing that we could have done would have prevented it. That is a proposition, which cannot be disproved, but an alliance would at least have made us better prepared, and would probably have shortened the war. Finally, it is said that by abstaining from definite and overt relations with our allies, and by keeping everybody in a state of doubt as to our intentions and obligations, we gave a chance to the peace party to gain the ascendent in Germany. That is to argue that, when a burglar is contemplating a raid on your house, it is best not to provoke him by warning the police or locking the door. There was only one way of putting the peace party in power in Germany and that was by proving that the defensive combination against her was so strong that the war-party could not succeed. Short of declaring war

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oneself there is no surer way of bringing it about than to conduct your relations with an aggressive enemy with indecision or fear.

V. THE CONDITIONS OF INTERNATIONAL PEACE

NOW that we have examined the causes of the war we find that fundamentally they resolve themselves into two. The dynamic cause of the war was the failure on the part of Germany and Austria-Hungary, under the impulse of their autocratic system of government, to respect liberty, and to recognize that they had any obligation to respect the rights of others, and any other duty than to aggrandize themselves by any means in their power. The contributory cause of the war was the failure of the other powers to realize that liberty and justice, which are the conditions of peace, will only prevail if the Powers, which are dedicated to their service, are willing to make the sacrifices and preparations necessary to deter more backward Powers from attempting to overthrow them.

Before we go on to consider the essentials of a peace, which will not only defeat the positive aims of Germany and Austria-Hungary, but remove permanently the causes which have brought war about, it is necessary to consider briefly the true basis of international relations.

Human society and the happiness of the beings which compose it depend upon the mutual goodwill, tolerance and justice, which the individuals manifest towards one another, and their readiness to help one another and to subordinate their own selfish wishes and interest to the general welfare. In course of time conventions have grown up which determine the mutual rights and obligations of individuals and the relations of the individuals to the community as a whole. These conventions are embodied in a code known as the law, and are the framework on which

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the social life of mankind is built. The whole process of civilization, indeed, centres about the development of this code, so as to accord ever greater security, greater personal liberty, and greater opportunities for progress and education, to the individual. Moreover, in the most civilized States the task of amending and expanding the body of law rests with the whole body of citizens, who modify it, through their representatives and the ballot box, from day to day, so that justice and liberty may ever more and more prevail.

The primary condition of civilized life therefore is a strongly developed sense of justice and respect for the liberty of others in the members of the community, which is reflected in the laws under which they live. But there is a secondary condition not less important, and that is that there should be a power which can enforce respect for the wishes of the community as expressed in the law on those who would disobey it. The sanction for the reign of law is force, and, if it were not for the existence of force behind the law, society would be speedily dissolved into its primitive warring elements, by the action of a comparatively few selfish and irresponsible groups. The security for the maintenance of peace, order, and liberty is primarily enlightened public opinion, but hardly less so, the fact that there is irresistible force, in the shape of the policeman, the judge and jury, and in the last resort, the army, to compel the wrong-doer, the bully, or the rebel to abide by the law and to respect the rights of others because he knows that crime will be followed by fines, or in serious cases by the loss of personal liberty by incarceration in prison. The characteristic of the civilized State is not the abandonment of the use of force. Its characteristic is rather that it forbids the use of force to the individual citizen except in extreme need of self-defence, but exerts it continually itself to uphold the law which guarantees to the individual freedom and justice. The difference between the most civilized and less civilized States is not in the possession of force, but the

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manner in which they make use of it, and the degree to which the Government, which decides how and when the force of the State is to be used, is under the control of the people.

When we come to consider international relations we meet an entirely different state of affairs. The peace, liberty and happiness of mankind depends no less upon the goodwill, tolerance and justice which the nations manifest towards one another, and their readiness to subordinate their own selfish wishes and interests to the general welfare. There are also conventions which lay down the principles which should govern international relations, though they are vague, and do not touch fundamentals. But the essential difference is that in the international sphere there is no authority with power to ensure obedience even to the limited provisions of international law, to enforce respect for the obligations of treaty contracts, or to protect the weak from the arbitrary violence of the strong. As between nations there is no such thing as the reign of law, for law ceases to reign, if it can be broken with impunity. Hence every State has to take the law into its own hands, and maintain sufficient force to defend its independence and security from being disturbed by violence at the hands of its neighbours, or to insist that its citizens and its legitimate interests are respected by its less civilized fellows. The situation, indeed, in the international sphere is exactly analogous to that in the wild west of America before the authority of the State and the sanctity of the law had been properly vindicated. The lives, liberty and property of the individual then depended on the respect which the possession of a gun or revolver, and a known determination to use it in self-defence, would impose on the bandit or outlaw. The sanction of international right (for there is no such thing as international law) is war, or the possession of superior force coupled with the determination to use it.

The peace of the world, therefore, depends in the first place upon the Great Powers pursuing a foreign policy which

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is scrupulously just, scrupulously respectful of the liberty of others, and scrupulously observant of the obligations of treaties and other international documents to which they have set their seal. And in the second place it depends upon the willingness of the most civilized and pacific Powers to maintain adequate force, and if necessary to use it, in defence of international right and justice, when they are wilfully assailed. The present war is due to the fact that Germany and Austria neglected the first truth and attempted to destroy liberty and overthrow international right in the interest of their own national aggrandizement, and that Great Britain, like other democratic powers, neglected the second truth, and failed to rise to the level of her responsibility as a great liberal Power, by declaring her intention of defending international right and justice, if need be by force of arms, in time to prevent the autocratic Powers from launching their attempt.

After the war the same essential conditions will obtain. It is, indeed, sometimes suggested that in future wars will be prevented by the creation of a concert of Europe or a concert of the Powers. But this plan, originally proposed in 1693 by William Penn, and often proposed since, has one fatal flaw. The only concert or council of the Powers which could guarantee peace, or abolish finally the competition in armaments, is one which could claim the obedience of all mankind, which was empowered to promulgate international law, and was possessed of irresistible power, with which to enforce obedience to it. Until nations are prepared to subordinate themselves and their fortunes to a body, in which they have but a fractional voice and whose decisions they cannot resist, the only way of preventing one or more of them breaking away and pursuing a selfish policy of its own is for its fellows to make it clear that, if it goes too far, they will restrain it by force. Until, therefore, an organic union of the world is in sight we come back to our earlier conclusion that the only guarantee for peace is a change of heart in Europe, coupled with a readiness on the part of the

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most pacific Powers to defend the right by force. In the light of this conclusion let us now attempt to examine the terms of peace at which we should aim.

VI. FIRST CONDITION OF A PERMANENT PEACE—A CHANGE OF HEART

THE necessary preliminary to any permanent peace in Europe is the conversion of Germany from her policy of domination. The eighteenth century was deluged in blood because the rulers and princes of Europe, freed by the wars of religion from any sense of inter-State unity or law, treated the world as an arena in which States strove endlessly for mastery and power by force and fraud. The horrors of the Napoleonic wars forced men to admit a common interest in peace, superior to their own selfish ends, and for fifty years the idea, if not the machinery, of the concert preserved peace in Europe. Bismarck reintroduced once more the eighteenth century standards. He admitted no claim higher than the interests of Prussia and of Prussianized Germany. Having forged the unity of Germany by the sword he based her station and position among nations on the fear she could inspire by the sword. And twenty years later, after a period for recuperation, his successor once more invoked the principle that Germany was a law unto herself, to justify a policy of expansion and mastery by force of arms. Inevitably the last vestige of the idea that there were European interests which should override national ambition finally disappeared. In 1909 Germany frankly threw her sword into the scale in order to compel the Great Powers to acquiesce in a forcible breach in the treaty of 1878, the last pan-European settlement. The only security for peace was thus the maintenance of a balance between the forces of aggression and the forces of defence.

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The mainspring of this policy, which thus gradually brought Armageddon in sight, was the autocratic *régime* and the ideas which inspired it. The ruling classes who hold the reins of power are the natural heirs of Frederick the Great and Bismarck. Their primary aim is the maintenance of their own domination within Germany, and, like Napoleon, the chief method they have used to cajole the people into acquiescence and into voting for their demands has been to excite the passion for dominion also in their subjects. And the people, untrained to that self criticism and toleration which comes with democratic responsibility alone, have blindly obeyed. They have in turn assumed the attributes of autocracy themselves. Just as the rulers of Germany can tolerate no equals in power within the State, so the people of Germany can tolerate no equals in the outside world. They have been taught that it is their destiny to prevail and to impress German Kultur on the world and that for this purpose any means are lawful. Hence their support for the policy of dominating and dictating to Europe in 1905, 1909, 1911 and 1914. Hence, also, the absence of any criticism of the employment by their rulers of the methods of frightfulness, and of any expedient, however barbarous and inhuman, which can help them to success. The whole Germanic world, corrupted by its vicious political system, which destroys self-criticism, undermines responsibility, and which drives the few who have power to reckless war, is working as a single unit, with passionate determination, to impose its will by force, and to destroy the reign of liberty and justice throughout the world. The permanent cure for the evil is democracy. It would destroy the roots of Prussian militarism at one stroke. It would relieve the government of the necessity of winning success abroad as the alternative to revolution at home, for in a democracy power rests with the people, and no government can stay in power which does not respect its wishes. And what is still more important it would substitute responsibility for blind obedience as the primary duty of the citizen. Responsibility, indeed,

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is the only school of liberty, and, until democracy is introduced into Germany, and its people, themselves possessed of political responsibility, can judge of what it means to others, they will never appreciate the enormity of the crime which they are committing against civilization, in allowing their rulers to launch them, with every engine of destruction that science can devise, against their inoffensive neighbours. Democracies are often impulsive and sometimes bellicose. They are more often blind to outside events and so provoke war by their unpreparedness and vacillation. But they can never be under that double impulse to wars of aggression, which comes from the combination of an autocratic government seeking for victory abroad as the security for its own power at home, and an irresponsible people taught that it is the highest patriotism to further their national destiny by blind obedience to their rulers' commands.

Democracy, however, cannot be imposed by the sword. It must come from within. Indeed, any attempt to interfere with the internal economy of Germany, as the result of victory, would be the surest way of delaying its advent. Our business in this war is not to reform Germany, for she only can reform herself, but to discredit for ever the policy of her rulers. For years the Germans have been taught to look outwards. By being made to realize that their rulers have brought upon them humiliation and disgrace, they must be made to look inwards. A critical survey of the Prussian *régime* and its promises, is the necessary prelude to any change in Germany, whether of policy or of constitution.

Thus the first and most essential of objects in the war is to compel Germany to admit utter and decisive defeat. We need not consider details, for on that all else hangs. Nothing could be more disastrous than that by signing a premature peace the slightest ground should be afforded to the rulers of Germany for proving to the German people that they have gained by their policy of armaments and

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aggression, and that, if they will only continue to support them, they may yet gain all by another desperate coup. The prospects of a lasting peace depend upon the whole theory of the German State being irretrievably and utterly defeated, and to fail in our efforts, before that is accomplished, would be treason to the very cause of civilization itself.

Similarly the material basis on which the German and Magyar attempt rested must be destroyed. The map of Europe must be redrawn in such a way that it shall no longer be possible for a small autocratic clique to make use of the lives and resources of more than 30,000,000 people of other races—mostly Slav—to maintain and extend their own autocratic rule.

On the other hand, if the decisive defeat of Germany is the essential preliminary to any better state of international relations, it is hardly less important that the peace should not be vindictive. Whatever we may think of the penalties which should be exacted from the rulers of Germany for their conduct in the war, we must not blind ourselves to realities. Germany is and will remain a great and powerful State. There is no way of permanently altering her policy by force. Napoleon attempted to overthrow Prussian militarism, and to limit Prussian armaments in this way, and within six years Prussia took the lead in the continental coalition which overthrew his power. The true security against a renewed German menace is the disillusionment of the German people in their own rulers and methods, and the maintenance of adequate defensive force outside Germany, to make success impossible for a renewed policy of expansion by war. A peace which gave any ground for the belief that the aim of the Allies was the destruction of the unity of the German people, or the restriction of their legitimate liberty or their opportunity to develop on peaceful lines, would only reunite the autocracy and the people in a common hatred, and a common determination to redress the wrong. It would delay the advent of the real

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cure for Prussian militarism—democracy—and it would render inevitable another war.

A just peace will be the best security for a long peace, and so far as Europe is concerned, it is not difficult to indicate its fundamental purpose. Its aim must be to draw inter-State boundaries in such a fashion that, if possible, in all Europe they shall be regarded as final, and that future changes will come from the voluntary agreement of the peoples and not by violence. If that could be achieved, the greatest single step towards a permanent peace in Europe would have been taken.

But even if, as the outcome of the victory of the Allies, the main European problem is settled for ever, on the basis that national liberty is to be mutually respected, and that territorial divisions corresponding with racial divisions are finally drawn, we have only settled half the problem. Perhaps the most potent of the appeals for men and money for armaments rested on the claim that Germany was entitled to her place in the sun. It is true that under the malign influence of her autocratic rulers Germany's idea of a place in the sun includes the mastery of her neighbours and the unjust and forcible imposition of her German will. But underlying this domineering spirit of aggression was another sentiment. The Germans believe, and believe rightly, that they are one of the great civilizing Powers of the world. Whatever their political faults may be, they have made a notable contribution to the civilization of mankind, in music, literature, in their methods of organization, in the thoroughness of their methods of thought. They look at the map and see that one quarter of the earth is included in the British system of civilization, that the whole of Central and South America is reserved under the Monroe doctrine for the exclusive influence of the United States, that Russia and the Slavs control half the Continent of Europe and half the Continent of Asia, that the French are paramount in North Africa, west of Egypt, and the Sudan; that even Japan, the youngest

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of the Powers, is organizing an Empire in the East. And they ask, why has Germany always been thwarted whenever she has tried to expand?

The answer in the past is easy enough. In so far as we have opposed Germany and her efforts in *welt-politik* it has been because her desire for a place in the sun has been coupled with a passion for mastery and an arrogant use of force, which threatened the liberty of the world. It is no small part of the tragedy that the bullying methods of her autocratic rulers have been the direct cause of the opposition to Germany since Bismarck's day. By opening every negotiation with France with the threat that if she did not concede the whole German demand they would smash her to the ground, they forced England to side unreservedly with France, and the issues were settled not on grounds of reason and justice, but on a basis chosen by Germany, that of force. By attempting to get political control of Turkey and to turn commercial concessions to political ends, she compelled England—in the interests of the peace and safety of India—to a reluctantly hostile attitude towards the Bagdad railway. If it had not been for her provocative attitude, she could probably have secured by purchase or exchange the reversion of the vast Belgian Congo, as she had already secured the right to the greater part of the Portuguese colonies, if Portugal collapsed. In the past, therefore, it has not been the selfish jealousy of her neighbours, but the intolerable methods of her diplomacy, and the menace of her known policy of aggression, which have stood in Germany's way. Indeed, one of the most important, if least realized aspects of the war is that, if Germany were to win, backward humanity would in great measure fall under the influence of a power which conducts its colonies to-day on the principle that the government exists for the benefit of the rulers, and not of the ruled.

But the question in the future may be different, if Germany abandons her policy of expansion by force.

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We must reserve the discussion of it to a future issue, for it is not merely one of "ringing in" versus "expansion." It hinges rather on the difference between an attitude of responsibility or of exploitation towards backward peoples. None the less it goes to the root of the permanent relations between Germany and her neighbours, and for this reason it is bound to be one of the most thorny, as it will be one of the most fateful problems, before the peace conference. For, if the Allies are victorious, it will arise at once over the disposition of the German colonies. The manner, and still more the spirit, in which they are dealt with, may be of the utmost importance. It may exercise a profound influence on whether the rulers of Germany are able to get support for a policy of revenge, and on the whole balance of diplomatic forces not so much in Europe as in the Far East. It is for this reason that an early conference between the British Government and the responsible ministers of the Dominions is so important. For if the British Government is to appreciate what is vital to the Dominions, and if the Dominions are to look at the problem with that breadth of vision and that understanding of world issues which alone can result in just and reasonable decisions, they must have faced the issues in detail and in time.

VII. THE SECOND CONDITION OF PEACE—A CHANGE OF POLICY

VICTORY on the battlefield, however, and the dictation of a just peace, will not in themselves guarantee permanent peace. Even if, as the result of efforts far greater than those we have at present put forth, we can impose the terms we desire, we must never sink back into that attitude of indifference to external affairs which was the

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contributory cause of the war. The most perfect settlement will not, in itself, ensure lasting peace. We can no more expect that all nations will respect or even understand one another's views and rights unless compelled thereto, than we expect that all individuals will respect their neighbour's rights and feelings, where there is no law and no policeman. It is not a simple question of might versus right. The practical issue is whether there is to be might behind right, or might behind wrong. Until we reach the stage when the constitution of a real government of the world has entered the sphere of practical politics, the only security for international peace and liberty will be the determination of the most civilized Powers to uphold the sanctity of international agreements and right, in the first place by all peaceful means, but in the last resort by the sword.

The problems which will arise immediately after the war will, one and all, raise this question of the sanction behind international right. What, for instance, is to be the guarantee for the liberty of the small States? It has been sufficiently proved that paper guarantees are useless. No nation is ever again going to run the risk of suffering the fate of Belgium, by trusting to the Great Powers to preserve its liberty, subject to the liability of having its territory made the cockpit of war. No guarantee will count which does not mean that the guarantors are ready and able to defend the frontiers of the small States with cannon and with men. How then are we to secure the safety of Belgium and Holland, and prevent them from gravitating in terror within the orbit of German influence, if Germany is not decisively defeated, and resumes once more after the war her policy of force? Whatever the precise method may be it will depend ultimately on our armed resources by land and sea. Again, let us suppose that the Allies succeed, and that the result is the discredit of the German political theory, and a general change of heart. This would be followed by a great development of the machinery of international co-operation.

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In this direction lies the best hope of progress towards unity and peace in the world. Regular meetings of an informal council of the nations are essential to the destruction of that ignorance and suspicion, which is the ground in which every chauvinist sows his seed, and to the development of that sense that the interests of humanity are superior to those of any people, which is the only corrective to national ambition. But international councils will be as useless in the future as they have been in the past, unless they produce a willingness among the most liberal Powers to back their policy in the last resort with force. Ambitious and aggressive Powers will refuse to attend the meetings, or to respect their decisions, as Germany did in the case of the Hague Conference in 1907, and will pursue their own selfish policy, unless they know that other Great Powers are ready to back their protests with action. And the best work which international conferences can do, the gradual elaboration of codes and treaties, which embody the civilized opinion of the world as to the manner in which the rights of humanity must override the interests of individual States, will be valueless, unless sufficient Great Powers are ready to insist on their observance, if need be by coercing the lawless State. It was precisely because Germany thought there was no sanction behind Belgian neutrality and the conventions which provide for the immunity of neutrals and non-combatants that she has subordinated every claim of justice and humanity to her own arrogant will.

The broad conclusion is clear. The prospects of permanent peace and liberty in the world will depend primarily on the justice of the settlement at the end of the war, but it will depend no less on the attitude of the chief civilized Powers towards external affairs. They must never again be misled by the easy doctrine that peace is maintained by keeping out of foreign entanglements, or inoffensive weakness and a steady shutting of the eye to hard unpleasant facts, for if they do, interested Powers will once more inaugurate a policy of expansion by force, in the hope that

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nobody will be resolute enough to stop it in time. They must recognize, one and all, that the modern world is a unity, that events in one part react immediately and continuously on every other part, and that the peace of the world is preserved not by passive talk about it, but by the active upholding of liberty in every part by Powers which care about justice and liberty, and which are willing and able to uphold them, if need be by force of arms.

VIII. THE MORAL FOR ENGLAND

THIS brings us back to the contributory cause of the war, the lack of decision in our own foreign policy. How is that to be prevented in the future? It was due, in part, perhaps, to the personal defects of the ministry. But it was far more due to the impossible task which has been laid upon them. How can we expect any one cabinet of men to be responsible for the conduct of foreign affairs, for the efficiency of the Army and Navy, for the good government of India and the dependencies, as well as for the multifarious duties of domestic government. No one body of men can deal adequately with the external problem, and at the same time have on its hands a constitutional crisis like that in Ireland, a constitutional problem like that of the House of Lords, the adjustment of the ever increasing difficulty of the relations between capital and labour, the framing and introduction of adequate measures of social reform, insurance, housing, the reconstruction of the agrarian system, land tenure, the development of education, the adjustment of the relations between local and central governments, and behind all and governing all the ever present problem of finance. And when we consider that all this business has to be transacted not in the serenity of great public offices, but through the machinery of debate in Parliament, and of occasional appeals, immensely exacting in time and energy, to the people at election time, the

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system is obviously at fault. If you increase the number of the Cabinet, you destroy its unity and the power of the Prime Minister to control it. If you keep it small, you give the members an amount of work which they cannot possibly do. And what is true of the Cabinet is hardly less true of Parliament. The dangerous strictness of the party discipline is largely due to the fact that the individual member has not time to master a tenth of the subjects on which he is called upon to vote. He has no option but in his ignorance to obey the party whips. If it were not that we have been accustomed to the system for centuries, every sane business man in the country would decry it as the most criminal piece of bad organization ever exhibited on a national plane.

There is another aspect of the question. It is the fashion to decry democracy, and to contrast the efficiency and self-sacrifice of Germany with the want of preparation, the want of leadership, the indecisions of the policy of the United Kingdom. There is some truth in the charge. As compared with autocracies, whose power depends on a thorough understanding of the use of force and an instant readiness to employ it, democracies, whose attention is concentrated on internal affairs, are naturally at some disadvantage in conducting international relations. Knowing the force of public opinion at home, they tend to assume that it has the same sanction in the international sphere. Committed to the view that force should only be used in the last resort to coerce unruly individuals, or the most insignificant minorities, they assume that force will only be used in the foreign sphere with equal hesitation and regret. They are predisposed therefore to listen to the politician who utters pleasant reassurances, rather than to the statesman who tells them the unpleasant truth, and calls upon them to make the sacrifices and preparations which a recognition of hard facts entail. Democracies have failed under the onset of tyranny before in the history of the world from this cause. The British and the French democracies have come

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perilously near to it in this war, and are not yet out of the wood.

But in our case it has not been so much that democracy has been at fault as that democracy has never had a chance. Under our centralized system the people are never really educated about the foreign problem, and they never have the chance of expressing a judgment about the policy which should be pursued. Parties in a democratic country with a single legislature are mainly divided on domestic issues—Education, Home Rule, the powers of the House of Lords, Tariff Reform, and so forth. Hence, except at times of crisis, the judgment of the constituencies is made upon these issues, and not upon those of foreign policy or defence. To avoid disaster, these subjects are treated as being in the main non-party. The only result is that they are pushed into the background, and get hardly any consideration at all. Criticism, the lifeblood of democracy, is almost impossible. If it comes from the Government side, it is made ineffective by the knowledge that, if it is backed by a vote, it will endanger the whole internal policy of reform which the party exists to carry. If it comes from the Opposition, it is equally ineffective, for the vote is of no importance, and the criticism itself is discounted on the ground that it is made in the interest of party gain. Under our present system there is neither effective publicity nor any means by which people and Parliament can express a clear verdict about foreign affairs.

This system was the biggest single cause why a Government, beset by internal difficulties, and a people no less preoccupied with them, failed to realize what was impending on the Continent, and were caught by an event, which, in fact, they feared, without any clear policy towards Belgium and France and without any clear plans as to how they were to meet the German aggression. And this same system is going to lead to disaster after the war, as it has led to disaster before it, unless we take the first opportunity of changing it. Let us look at the

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terrific problems which lie before us. Let us assume that the Allies are victorious, and that a settlement is reached on the lines suggested in this article. During the years immediately following the war external affairs will require the most vigilant and continuous attention. If Germany does not abandon her aggressive policy and sets to work to plot revenge, the only safeguard will be the maintenance of such defensive strength as will make successful aggression impossible. If some other Power attempts the same game, the whole system of international relations will have to be altered to suit. If Germany abandons her policy of armed aggression, on what terms is she to be allowed to enter the Entente, which is the nearest approach to an armed league for the maintenance of the liberty of nations which we have yet seen? How are her external aspirations to be satisfied? What are the principles on which the law of nations is to be developed, and what are the obligations which we are to assume, in common with other liberal Powers, for ensuring that it is observed? There is also the whole question of the Pacific, and the alliance with Japan. Not less important is the problem of what reply should be made to the inevitable demands for a development of self-government in India and the Dependencies. And hinging on them all is the question of armaments, for on them will depend our security, our alliances and our influence for peace and liberty in the concert of the Powers. Is it conceivable that any single body of men, however competent and however fresh, can deal adequately with these delicate international problems, and handle at the same time, efficiently and in time, the terrible internal problems of the war itself, the discharge of troops, the care of the disabled, the whole complex readjustment of the national life and industry to peace conditions, the even more complex question of crushing new taxation, to say nothing of the legacy of political problems left unsolved from before the war; and that at a time when nerves are shattered, the voice of criticism and complaint is loud in the land, and the exhausting machinery of parliamentary discussion and

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popular election, now still, is in operation once more? It is manifestly impossible. One of two things will happen. Breakdown, or a still further increase in the autocratic powers of the Cabinet, because to give them a free hand is the only chance of enabling them to muddle through.

For this evil there is only one effective cure, the division of the bodies which are responsible for external and internal affairs. There ought to be one body which is responsible for foreign affairs, for defence, and for the government of the Dependencies, with power to raise the taxation required; there ought to be another body to deal with internal affairs, education, labour problems, local government, tariffs, the land, and so forth, and with power to raise the taxation required. Each would have a cabinet responsible to it. Each would require to go at regular intervals to the electorate to endorse or reject the policy of the majority. In this way on the one hand the immense volume of the business of the country would be divided between two bodies of men—as it is in America and every British Dominion, though their problems of government are far less complicated than ours, and on the other it would be possible for Parliament and the people to obtain information about foreign policy and to control it on broad lines. Democracy may have its defects, but a system which purports to be democratic and which yet affords none of the safeguards of democracy is bound to fail. The present demand for the democratic control of foreign policy is absolutely sound. Owing to the excessive concentration of our governmental machinery, foreign policy has been secret, it has not been subject to criticism, and it has been disastrously timid because the public have been ignorant about the issues, and the Minister has never known whether his policy would have their support. So long as the present concentration continues, so long will our foreign policy be autocratic, weak and dangerous. No parliamentary committee on foreign affairs will really meet the need. It would do nothing to diminish the congestion of business, and it

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would destroy that unity of responsibility which is the one element in our system of government which saves it from chaos and breakdown. The only cure is to divide the bodies which control internal and external affairs. There would then be both publicity and criticism of foreign affairs in the body which controlled the external ministry. And the people and their representatives would be able to give a verdict on the main issues of foreign policy free from the confusion of local affairs.

It is evident that there is another force pressing in the same direction—and that is the desire for full self-government on the part of the Dominions. They have been committed to war by the act of the British Government, and they have given the lives of their sons and the resources of their citizens for the common cause with not less alacrity than the British people. But they will never do it again. It is incredible that fifteen millions of the most civilized of men will continue to forego the very essence of self-government—the control of the policy which makes for peace or war—when they realize how much the present war is due to the exigencies of party strife in England and the inadequacy of the machinery of government of the Empire. They will discover that the autonomy which they possess is a sham so long as the essential attribute of sovereignty—control of the issues of peace and war—is concentrated at Westminster, and they will say, what Sir Robert Borden has already said, that the common control of foreign policy is the essential corollary to co-operation in common defence. There is no use in considering at this moment the method by which the Dominions are to share in the control of foreign policy. That must be reserved for consideration after the war is over. But it is obvious that Dominion pressure will also make in the direction of creating a separate body, free from the distractions of the English party system, to deal with foreign and Imperial affairs.

Conclusion

IX. CONCLUSION

THE purpose of this article is not to raise discussion about a *post bellum* policy, but to point out the evils which have caused the war, in order that we may be clear how they are to be cured. For the moment we have only one duty before us, to concentrate on the sole task of defeating Germany, and destroying the prestige of that domineering and autocratic spirit which has been the root of the war. Until that is done everything else must wait. For on success in the war itself all else depends. Germany and Austria-Hungary are fighting to establish an ascendancy over Central and Western Europe by force of arms, as the stepping stone to a similar ascendancy, based on fear, in the outside world. If the Germanic Powers win, national liberty in the Balkans, in Holland, Belgium, Denmark, and Switzerland will vanish, even if there is no formal annexation. In France and in Italy it will be seriously restricted. All the States of Europe, and those of the outer world also, instead of pursuing their own way free from apprehension and free from interference from outside will lie in the shadow of Germany, knowing that at any time she may insist on their subordinating their policy to her will, under threat of crushing them with irresistible military power. In resisting Germany and Austria-Hungary, the Allies are not fighting only for their own national independence, and for the liberation of many millions of Serbs, Croats, Slovaks, Poles and other races, who lie under the German and Magyar heel. They are fighting also for the overthrow of a principle which, if it were to come, would render impossible that progress of free nations towards concord and unity which is the only sure foundation of lasting peace.

EUROPEAN DIPLOMACY

BISMARCK TO SIR EDWARD GREY*

I. THE SYSTEM OF BISMARCK

THE events which changed the map of Europe in the twelve years 1859-1871 had a decisive bearing on the internal condition of the States whose international position had undergone a transformation during that period. In turn, the working out of their domestic problems during the following years was bound to react on their international position. A new basis had to be found for the mutual relations of the different nationalities of Austria-Hungary. The Republic in France and the lay Monarchy in Italy had yet to prove whether they were capable of withstanding the attacks of their enemies. In Germany a balance of power had to be established between the different parts, the adherents of Prussian centralization had yet to win their battle against Southern federalists and against Roman Catholic *frondeurs*. The issue of the internal struggle in any one of the four Great Powers might have opened up once more the whole "European problem."

Ever since 1871 Bismarck had feared lest a sudden political revolution in any one of the other three States should lead to a European war in which might have perished the German Empire of Prussian creation. He was conscious of the weakness of new political formations, of the enmities which their rise necessarily evokes and of the incentive to

* Contributed.

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further changes which is contained in every recent change.* Most of all, he was afraid of a general Catholic upheaval. Every stride in his political advance had hurt the interests of Roman Catholicism; might not the Roman Catholic Church some day unite all her forces in a final struggle against him? Militant Catholicism in France, in Italy and in Austria might join hands with a national movement in Catholic Poland and with separatist movements in the Catholic South and West of Germany. Bismarck was conscious of having misled Russia in 1866 and 1870 by appearances of comparative weakness, and of having deceived English public opinion by promises of a Germany very different from that which arose out of the defeats of Austria and France. Could he still hope to see them stand by as inactive witnesses of a third Prussian victory, unless their own interests compelled them to do so?

Bismarck's achievements had not merely changed the frontiers between European Powers. Political combinations which for generations had dominated European diplomacy were now no more than historical memories. Austrian influence had been eliminated from Western and Central Europe, French influence had been thrown back beyond the Vosges. Germany and Italy had been for centuries the meeting ground and the battlefield of Habsburg and Bourbon, as national States they now arose a barrier between Austria-Hungary and France. England was now deprived of French support in the Eastern Mediterranean, Russia of all occasion for interference in Central Europe. The German Empire had arisen in the very centre of Europe, in its cockpit. Could Bismarck, like the Mikado in the play of Gilbert and Sullivan, make all the European rulers turn away their faces from where he stood with Germania?

He knew that he had never made friends with any other Power except at the expense of some unfortunate third

* There is an admirable discussion in Machiavelli's *Prince* of old and new States and also some remarks on precedent in revolution; " . . . sempre una mutazione lascia lo addentellato per la edificazione dell'altra."

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party: hence wherever he saw two of them gathered together he suspected conspiracy. Some understudy might attempt to repeat his game, but this time at his own expense. As Count Shuvaloff put it, Bismarck suffered "du cauchemar de coalitions" and from the fear of isolation. He set out to create "common interests" between Germany and the different Powers and to sow dissension among them. During the years 1871-1878 the foundations were laid of the new order in Europe; with the Congress of Berlin, it begins to take shape.

Since the French disasters of 1870 and the downfall of the Bonapartist Empire, friendly feeling for France had gained ground in Great Britain. With a view to counter-acting it, Bismarck in 1878 encouraged France to embark on a policy of colonial expansion. He hoped that it would divert the attention of France from European problems, that it would turn away her thoughts from the lost provinces, and that it would in any case tend to weaken her resources available for action in Europe; he knew, moreover, that French colonial expansion was bound to revive old Anglo-French rivalries. He then obtained England's consent for a French occupation of Tunis. Italy had looked upon Tunis as being within her own sphere of interests. She did not hurry about establishing any definite title to its possession, as she did not foresee the danger of being forestalled by France. Italian statesmen expected that England would not allow France to extend any further her coastline on the Mediterranean, they overlooked the fact that it was to her interest that both sides of the narrow sea-way between Sicily and Africa should not be in the possession of the same Power. Still, though Great Britain had consented to the occupation of Tunis, French expansion in Africa was bound to lead in the long run to a conflict of interests between the two Powers. In Italy the occupation of Tunis by France evoked a storm of indignation. It was described as a direct threat to Sicily. Hitherto

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Italy had wavered between a Latin and a Germanic foreign policy. The popular sympathies in Italy were with France and against Austria. Italy's lay Monarchy felt as much afraid of the French Republicans as of the militant French Catholics; it saw its safest support and ally in Bismarck's strictly monarchical but anti-Catholic policy. The French occupation of Tunis put an end to the hesitation in Italian foreign policy. The fear of French supremacy in the Mediterranean made official Italy forget for the time being about the "Italia irredenta" which had remained under Austrian rule. Still an Italian Government could not have openly entered an anti-French alliance without first receiving a sufficient guarantee for the safety of the Italian shores. Italy had no fleet which could have been a match for that of France, and neither of the two Germanic States could have made good that deficiency in her armaments. But Bismarck needed Italy for a partner in the Triple Alliance. The connection between the Germanic Powers and Italy strengthened Austria as against Russia and weakened France against Germany. Austria could henceforth concentrate her military forces on one front, France had now to think not merely of the German, but also of the Italian frontier. Had Italy passed under the influence of France, England might have seen herself induced to conclude a compromise with the two Latin Powers and some kind of "Mediterranean understanding" might have arisen. The absence of embittered feuds between other Great Powers always meant, to Bismarck's mind, danger to the interests of Germany; he was now secured against that danger. The rivalry between Great Britain and France in itself constituted a guarantee for the safety of the Italian shores; at the renewal of the Triple Alliance in 1887 Great Britain gave an explicit promise to defend Italy against possible French attacks by sea. Thus Italy, free from the fear of French attack by sea, was enabled to become and remain the ally of the Germanic Powers.

Western Europe was divided into two hostile camps,

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working together, by their very hostility, *pour le roi de Prusse*. It is this state of international antagonisms which Prussian statesmen describe as a condition of "independence" for the rest of the world.

The situation of Western Europe about 1887 might thus be summed up as follows: Whilst Great Britain protects Italy and thereby enables her to remain safely a partner in the Triple Alliance, "the leading statesman of Germany gives Italy, besides the help which is due to her by treaty obligations, all the assistance which his power and authority in Europe enables him to afford her. Nevertheless he follows out the old principle of leaving a free hand to the colonial ambitions of France. That keeps up the rivalries between France and England and between France and Italy in all their bitterness. Though Germany disposes of no power at sea, the wires of the situation in the Mediterranean rest in the mighty hand of Prince Bismarck."*

A year after the Congress of Berlin a defensive alliance was concluded between Germany and Austria-Hungary. It stipulated active help in case either of the two States should be attacked by Russia, and further contained the promise that should either State be attacked by a third Power, other than Russia, the other party to the treaty should observe towards its ally an attitude amounting at least to "friendly neutrality." If Russia were to join or in any way support the attacking third Power, this would be construed as coming under the first stipulation. In 1883 Bismarck entered into a "treaty of reinsurance" with Russia. Should either of the two States be attacked by another Power, the other party to the treaty promised to preserve an attitude of "friendly neutrality." What was the meaning of these two treaties?

In Austria-Hungary the direction of foreign policy had by 1879 passed into the hands of the Magyars; their chief

* Cf. Count Ernst zu Reventlow, *Deutschlands Auswärtige Politik 1888-1913* (published in the spring of 1914), p. 14.

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fear was of Russia, their chief preoccupation lay in the maintenance of the predominant position of Austria-Hungary in the Balkans. That was guaranteed to them by the alliance with Germany. By that guarantee Bismarck merely followed out Germany's own interests and made no sacrifice whatsoever; even before the Congress of Berlin and the conclusion of a formal alliance, he had warned Russia that he could not allow Austria's position as a Great Power to be destroyed or in any way endangered by Russia's predominance. Germany needed a strong and "independent" Austria-Hungary as a factor in the "balance of power." The alliance with Germany made it even more certain that Austria would play in the "Concert of Europe" the part which Bismarck wanted her to adopt. A formal alliance with Germany acted as a check on the anti-German party in the Austrian Monarchy itself. The old Viennese aristocracy which had not forgotten the humiliation of 1866, the clerical Catholics who hated Protestant Prussia and resented Bismarck's *Kulturkampf*, finally the rising Slav nationalities of Austria, the Poles, the Tchechs and the Slovenes, constituted a numerous contingent, which, if properly organized, might in time have become dangerous to Germany's Prussian future. The treaty of 1879 was concluded not by the nations of Austria-Hungary, but by the combination of two dominant minorities, the Austrian liberals who were primarily German nationalists, and the Magyars to whom 1866 had meant liberation and not defeat. In 1866 the Magyars had gained freedom and ascendancy through Austria's disaster; moreover, they had, and still have, in common with Prussia, an anti-Slav interest. Their rule in Austria-Hungary strengthened Bismarck's position in Europe, the German alliance tended to secure their power in the Dual Monarchy. Further, her alliance with Austria secured Germany from the danger of an Austro-French combination; no union would have been more natural in those years than that of the two defeated Roman Catholic States which had once fought one another for the hegemony

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of Europe and which now had met with the same fate at the hands of the same Power. But not only did the alliance with Austria protect Germany against a great Catholic coalition, it also secured to her Austria's help, should she have to fight a war on two fronts, against France and against Russia.

On the other hand, should a coalition of militant Roman Catholics and Slavs have gained the upper hand in Austria (and in such a coalition the Poles would have played a great part), Bismarck could have fallen back for safety on the Russian "reinsurance." Bismarck himself described the situation as follows: "There are no differences of interests between Germany and Russia. . . . On the contrary their common needs in the Polish question and the effects of the traditional dynastic union against revolution form a basis of a common policy for the two cabinets." This basis is weakened by the hatred which Russian public opinion feels against Germany. "Still the hostility of the Russian people against Germany is hardly stronger than that of the Tchechs . . . Slovenes . . . and Poles." Therefore in deciding in favour of an alliance with Austria, Bismarck was by no means willing to break off his connection with Russia, for, as he puts it, Germany has no security against a possible "shipwreck of the combination which has been chosen, though there is a possibility of checking anti-German movements in Austria-Hungary as long as German policy does not destroy the bridge which leads to St Petersburg. . . ." The mere fact that the breaking up of the alliance between Germany and Austria would have led almost automatically to the establishment of an alliance between Germany and Russia, formed a check on the anti-German tendencies of the Austrian Poles. For in such case the dissolution of the Austro-German alliance would have merely endangered the international position of Austria-Hungary, without in any way promoting the chances of Polish freedom. Finally the understanding with Russia afforded Germany further protection in case of a war with France.

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But what benefits did Russia derive from the "treaty of reinsurance"? She did not require from Bismarck any promise of support against possible attempts by Austria to foment trouble among her Poles. In that matter Prussia's own vital interests afforded a sufficient guarantee. From the Russian point of view the "treaty of reinsurance" was directed, as Count Reventlow points out, primarily against Great Britain and only indirectly against Austria-Hungary. The conflict which at that time existed between British and Russian interests and policies both in the Near and in the Middle East, threatened to culminate at any moment in war. Says Count Reventlow: "The danger for Russia in 1887 as well as in 1884 came from Great Britain. A war between Russia and Great Britain was then, as later, an event which had to be expected and counted with in Europe. It would have been of supreme importance for Russia, in case that war had broken out, to be assured on her Eastern frontier and in the Baltic Sea of the friendly neutrality of Germany. Similarly her promise of neutrality gave Russia the assurance that Austria-Hungary would not exploit her embarrassment during the war in a way hostile to the Russian Empire."* In other words, faithful to the treaty of reinsurance, Bismarck would not have allowed Austria-Hungary to join Great Britain in any anti-Russian alliance. Had a war broken out between England and Russia over an Asiatic problem, Austria would have had to remain perfectly neutral. Thus Russia gained a free hand for a policy of aggressive Imperialism in Asia, for expansion in the direction of India and towards the Pacific coast. Similarly, as French colonial expansion affected her military resources available for Europe, so Russia's activity in Asia was bound to weaken her forces in the West, while it intensified still more her rivalry with England.

We do not even now know with certainty whether any provisions concerning the Near East were contained in the treaties of reinsurance, but Bismarck's *Reminiscences*

* *Deutschlands Auswärtige Politik 1888-1913*, p. 21.

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throw light on the way in which he proposed to preserve the equilibrium in the Balkan Peninsula. "It would be better for Austrian policy," says Bismarck, "to withdraw itself from the influence of Hungarian Chauvinism, until Russia had taken up a position on the Bosphorus, and had thereby considerably intensified the friction between herself and the Mediterranean States—that is England, and even Italy and France—and so had increased the necessity of coming to an understanding with Austria *à l'aimable*. . . . The share which Austria has in the inheritance of Turkey will be arranged in understanding with Russia, and the Austrian portion will be all the greater, the better they know at Vienna how to wait, and to encourage Russian policy to take up a more advanced position. . . ." In short, Bismarck was prepared to push Russia forward in order to embroil her with England. Directly or indirectly, he expected us to do Austria's work.

Bismarck encouraged French and Russian expansion along lines on which their interests were bound to collide with those of Great Britain. Hostility and mutual suspicion between Great Britain and France, and Great Britain and Russia, secured for the members of the Triple Alliance, without any counter-consideration on their part, the support of England. English fleets remained the guardians of Italian interests in the Mediterranean, of Austro-Hungarian interests in the Balkan Peninsula. Germany enjoyed "splendid isolation" from liabilities and dangers, England from anybody's support for the defence of her own interests. Her own interests could lead to a collision with France or Russia only over colonial problems; had that event occurred, not a single Continental Power was in any way bound or likely to afford her any assistance.

In 1897, Bismarck's system of alliances and understandings, especially his treaties of "reinsurance" with Russia, came up for discussion in the German Reichstag. Baron Marschall von Bieberstein, then Secretary of State for Foreign Affairs, refused to enter into the question whether the latter had

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ever existed, and limited his share in the debate to considerations of an exclusively "theoretical and academic" nature. His general view of the system was, that a statesman possessing the authority and abilities of Bismarck may have been able to govern and direct such a complicated machinery of agreements, but that it must be considered too involved for normal men and circumstances.

Bismarck's successor, Count Caprivi, the most liberal and most honest politician who ever occupied the post of German Chancellor, allowed the treaty of reinsurance with Russia to expire in 1890. According to Prince Hohenlohe, who in turn succeeded him, he acted therein as "trop honnête homme." As a matter of fact, the mere dropping of the written agreement made very little difference in the political situation. Bismarck's system survived in its essentials for almost another ten years. The relations of Germany with all the European Powers, excepting of course France, remained, on the whole, cordial; hardly any one of the other five Powers was "on speaking terms" with more than one other Great Power, while the relations of each Power with most of the others were inspired by intense jealousy or even open enmity. Each of them seemed prepared to face the hostility of almost the entire world. Great Britain, for one, in Count Reventlow's words, "was isolated and dependent on the Triple Alliance in a way which was the more discomfiting, as in no political matter was she able to count on assistance from any other European Power." Nor could she count on any help from the Powers of the Triple Alliance, as is avowed by Bismarck and indeed Count Reventlow himself.

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II. THE BREAK-UP OF THE SYSTEM

BISMARCK'S system lacked the universal ideal basis which that of Metternich had possessed. Though an ultra-conservative at heart, Bismarck had been unable to uphold in international relations the fundamental doctrine of the conservative creed, the sanctity of existing rights. With the help of revolutionary nationalists he vanquished Austria, the embodiment of past history in politics; with the help of free-thinkers and radicals he fought Rome, the bearer of spiritual tradition. At heart he had never abandoned his Prussian conservatism of 1848, but he was a conservative only at home, abroad he was primarily a Prussian. In foreign politics, conservatism and revolution, established governments and striving nationalisms, came to be for Bismarck but means to be used for the realization of his Prussian ideal. Metternich and Nicholas I were capable of disinterested service to the principles of conservatism, even where the interests of their own States were not directly concerned. The system which Metternich established in 1815 to close the era of revolutionary upheaval, was based on a universal principle. Metternich claimed for it the rank of a "Weltordnung" (an arrangement of the world resting on the laws of nature). It survived intact and almost unchallenged for thirty-three years. Bismarck's system of alliances and understandings was, from the international point of view, a mere contrivance and never rose to the level of a principle. It could only be maintained owing to the conservative character which his foreign policy had assumed after 1871. As long as German foreign policy remained conservative the system of Bismarck survived; it could not survive once the policy resumed an aggressive tendency.

From 1871 onwards the preservation of the *status quo* became the aim of Bismarck's endeavours. France was not

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to renew her past, the Slav nations were not to achieve their future. The clock of Europe was to stop at the hour of German victory. Bismarck understood what most French statesmen of the nineteenth century had failed to understand: that the rise of free national States, strong in their internal union and coherence, is not to the interest of nations which aim at dominion; that it is easier to influence or bully unrepresentative governments than to domineer over self-governing nations. The Eastward march of the principles of nationality was to go no further than Germany. Autocratic Russia, chaotic Austria, and even Turkey found a friend in Bismarck; he saw in their governments the safeguards of Prussia against the nations which they ruled and restrained; hence the conservatism of his international policy in Eastern Europe.

After 1871 Bismarck hardly wished for any further extension of German territory in Europe. He never willingly contemplated expansion outside Europe. He had refused in 1871 to claim Pondichery from France on the ground that he did not want to have any colonies at all.* In 1881 he declared that as long as he remained Chancellor, Germany would not engage in any colonial policy.† His own *désintéressement* enabled him to use colonial problems as a means of sowing dissension among the other Powers. In later days, when the pressure of various commercial interests on the German Government had become stronger, Bismarck had to give his assent to certain colonial enterprises, but he never allowed them to reach the dignity of a system or of a policy.

On January 18, 1896, the twenty-fifth anniversary of the proclamation of the German Empire, Wilhelm II delivered a speech setting forth the principles of "Welt-politik": "... The German Empire has become a world-Empire. Thousands of our countrymen dwell abroad in all the most distant parts of the world. . . . It is your business . . . to

* Poschinger, *Prince Bismarck as Economist*, I, p. 63.

† Poschinger, *Prince Bismarck and the Parliamentarians*, III, p. 54.

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help me to bind this greater German Empire more and more closely to the old Fatherland."

The Berlin correspondent of *The Times* remarked on this occasion that "the conception of a 'greater' German Empire beyond the seas . . . has probably possessed the Imperial mind for some time past. Not only does this speech furnish a key to the unexpected action which Germany took last year in the Far East, but it lends special significance to the conspicuous interest which she has lately taken in South African affairs. The colonial possessions actually subject to the German Crown . . . would hardly seem at present to justify the title of a world-Empire. . . . In what hitherto unappropriated quarter of the globe is it to be carved out, or else how, and from whom, is it to be conquered?"

Indeed, from the very beginning German colonial policy wore an anti-British complexion. Great Britain appeared to the eyes of Germans as the effete and unworthy heir of great riches; she was fit to become their victim and prize.

From a very early date the planners of a German colonial Empire directed their attention to South Africa. German Imperialists claim Low-German nationality for the Dutch. To the British idea of a United South Africa within the British Empire they opposed the idea of a German colony extending across the Continent from Santa-Lucia Bay to the Lüderitz-Bucht. The Kruger telegram was neither the first nor the last expression of their aggressive anti-British policy in South Africa.

The anti-British character of German "Welt-politik" showed itself also in the courting of Britain's chief rivals, France and Russia. In 1893 Germany joined France in a protest against a contract which the British Government had concluded with the Congo State for the lease of certain districts to the West of the great lakes. In 1895 Germany supported Russia and France in imposing on Japan a revision of the treaty of Shimonoseki. Her policy in the Far East maintained thenceforth its orientation towards Russia.

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About 1900, German political thought began to develop openly the idea of a great Continental System under German leadership, destined to succeed where Napoleon I had failed, i.e., in the struggle against the British Empire. Germany was to become the champion of the rights and claims of the Continent against Anglo-Saxon "tyranny" on sea and Anglo-Saxon "monopoly" in the New World. The Continental nations had merely to be brought to understand their own interests and then to allow themselves to be organized and led by Germany. Great Britain still remained isolated.

German colonial policy differed widely from that of Russia or France; it failed to pursue clearly defined, and therefore limited, aims, and it was far more aggressive in its nature. The idea of conflict preceded in it the idea of acquisition, and the conflict was conceived as one of nations rather than of particular interests. The intrinsic value of any objects in dispute mattered little; their chief importance lay in that they embodied "Machtfragen" and were parts and symbols of the great "Welt-politik."

In his *History of Twelve Days*, of the days which preceded the outbreak of the present war, Mr Headlam draws attention to the change which the very idea of war had undergone under German influence. War is no longer waged for territories or rights, but is claimed to be a fight for national existence; it cannot end by either side arriving at the conclusion that the continuance of the war will not pay, it must be carried to the limits of what is called "annihilation." A war in which modern Germany is involved cannot end as did the world-struggle which we describe by the local designation of the Crimean War.

A similar difference exists between German and French or Russian colonial policy. We might have fought a colonial war with either France or Russia, without its affecting life in Europe to any considerable degree. We have always considered colonial wars in a curiously detached state of

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mind; we failed and still fail, to see a connection between our national honour and every African sand-hill. British pioneers came many a time into conflict with the Portuguese in Africa, and no British cruisers were sent to threaten Lisbon. The resources of a world-Empire could not be called up and its authority brought into play over every single detail of its possessions. Much waste was caused by that attitude, and a fair amount of ignorance lay at its root, but it also contained a philosophy of growth. France and Russia stood in a relation of intense colonial antagonism to us for about twenty-five years. Yet neither of these two Powers conceived the idea of competing with us for dominion on sea, any more than we thought of arming on land for a war against them. It was left to Germany to discover that the road to every Asiatic valley, Pacific Island or African desert leads through London.

In the summer of 1897 von Tirpitz became Secretary of the German Admiralty. In 1898 the German Reichstag passed the first great naval programme, which was doubled in 1900. On that occasion von Tirpitz declared that Germany required a navy of such strength as would "in case of war, imply, even for the greatest naval Power, a danger to its very position as a power." The German Navy uttered threats against us before it had come into existence. The scene reminds one of a certain German morality-play which starts with Adam crossing the stage "on his way to be created."

The eight years 1897 to 1905 are the great period of re-shuffling in European international politics. During these years the system of Bismarck practically ceases to exist and the isolation of Great Britain comes to an end. It was a time of subdued wars, of silent events and of far-reaching decisions. Foundations were laid for the organization of the British White Empire, and the Crown Colonies were consolidated. Meanwhile the attitude of Germany towards Great Britain and Russia definitely lost its Bismarckian character of reserve and conservatism. Her naval policy

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gained its full expression and her ambitions in Asiatic Turkey destroyed her past aloofness from Balkan affairs. That period witnessed the rise and fall of Russia's Pan-Asianism. At its beginning Russia turned away from Europe. An agreement was concluded with Austria-Hungary in 1897 for the maintenance of the *status quo* in Turkey; Prince Lobanow-Rostowski, then Russian Foreign Secretary, described it as a "protocole de désintéressement" on the part of the two Powers. The Balkan Question was "frozen." Eight years later, at the peace of Portsmouth, Russian aggressive Imperialism acknowledged its defeat in the Far East. In French history the eventful years begin with the incident of Fashoda, and end with the conference of Algiers. The reconsideration of policies after Fashoda closes the period of Anglo-French Colonial rivalry, the Russo-Japanese War leads to a liquidation of Anglo-Russian differences. Bismarck's political contrivance, like most international systems born from upheavals, could hardly have outlived one generation. Great Britain could not remain much longer in her isolation, yet many political combinations other than the Triple Entente were still feasible in 1897.

Even German historians, in their saner moods, do not maintain that England from the outset adopted an attitude of hostility towards the growing German power. We watched the emphatic self-assertion of its rise with amusement and amazement rather than with dread. It impressed us in much the same way as the ferocious looks which German males try to cultivate, their bristling moustaches, their stiff, abrupt movements and the general violence of their speech and behaviour; they recall to our minds Cæsar's barbarians rather than Cæsar. We did not hate the Germans; the gulf between our character and theirs is so great as to prevent even hatred on our part. Had Germany put forward any definite, reasonable demands which might have served as a basis for negotiations, we might have arrived at an understanding with them. In the years between Fashoda

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and the outbreak of the Russo-Japanese War, Great Britain had come to feel the strain of her isolation. After all, that famous isolation had never freed us from liabilities. We should have been drawn into the War of 1870, had either side violated the neutrality of Belgium. In 1875 we joined Russia in protecting France, when Bismarck, dismayed and almost frightened by her rapid recovery, was preparing to inflict on her a second and even more crushing blow. In 1878 we stood on the brink of war with Russia over Turkey; we continued to interfere actively in Balkan affairs during the next seven or eight years. When in 1888 a French fleet seemed to menace Italy, our Channel fleet was at once dispatched to the Mediterranean. We had liabilities, but no safeguards. The only reason why we were ever able to acquiesce in such a state of affairs was that at that time no one seriously threatened our national existence by questioning our predominance on sea. It is sometimes said that we always oppose the strongest continental Power. That statement is inexact; we never oppose it until it threatens to gather forces with which to dominate the European Continent as a prelude to a struggle against the Anglo-Saxons. Germany was the greatest Power on the Continent during the last twenty years of Bismarck's Chancellorship. Proportionately her trade was growing no less rapidly than it has grown since 1890. Yet no British statesman then thought of Germany as an enemy.

We can hardly hope to know as yet with certainty how far British statesmen about 1898 were prepared to go towards an agreement with Germany. Mr Joseph Chamberlain delivered about that time several speeches strongly advocating an alliance with Germany. On November 30, 1899, in his speech at Leicester he pleaded for a Teutonic League consisting of Great Britain, the United States of America, and Germany. "There is something," he said, "... which, I think, any far-seeing English statesman must have long desired, and that is that we should not remain permanently isolated on the Continent of Europe; and I think the

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moment that aspiration was formed it must have appeared evident that the natural alliance is between ourselves and the great German Empire. . . .”^{*} His pronouncements were usually more fateful than representative. Yet it can hardly be doubted that Great Britain attached considerable value to the friendship with Germany and Austria-Hungary in those days when Anglo-French relations were most severely strained and when Pan-Asianism dominated Russian politics.

“It was and is in no way correct,” writes Count Reventlow, “to speak, in reference to that period, of hypocrisy in the endeavours which Great Britain made to draw closer to Germany. On the contrary, these endeavours were . . . very sincere. . . .”[†] Prince Buelow had two reasons for refusing. A *rapprochement* with England would have led to an estrangement with Russia, which might have had a fatal influence on the Triple Alliance. In 1897 Russia and Austria-Hungary had come to an understanding concerning the Balkan Question which had hitherto been one of the chief sources of division between them; if Germany had at that moment turned away from Russia, a close Austro-Russian entente might have followed. “We might have pushed Austria closer to Russia than was desirable and we should have remained almost completely isolated on the Continent.”[‡] Prince Buelow was therefore careful, when speaking of co-operation with Great Britain, always to insert a formula “saving our faith” to Russia. Thus he declared in December, 1898, that there were different questions concerning which Germany could and did co-operate with England whilst “not damaging, but fully preserving valuable relations in other directions.” In 1901, when the alliance between England and Japan was negotiated, Great Britain was prepared to accept Germany as a partner. Germany refused, because the alliance was

^{*} See *The Times*, December 1, 1899.

[†] Reventlow, *Deutschland's Auswärtige Politik, 1888-1913*, p. 117.

[‡] *Ibid.*

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primarily directed against Russia. Had she accepted that offer, says Count Reventlow, the period of Anglo-German rivalry might never have set in, and also quite a different grouping of Powers might have been established on the Continent. In any case it is evident that it was not England which thought of isolating Germany and of challenging German supremacy in Europe, but Germany that sought to engage England in a struggle for supremacy outside Europe. She hoped to enter that struggle as the head of a Continental League.

After Fashoda, France had to make her choice between two enemies; she could not continue her anti-German policy, aiming at the recovery of the lost provinces, and at the same time engage in sharp conflicts with Great Britain over colonial problems. There were strong reasons in favour of a reconciliation with Germany. The position of France in Europe was difficult; her only ally, Russia, was becoming more and more preoccupied with Asiatic problems; and moreover the Franco-Russian alliance was of a strictly defensive nature. Anti-British feeling was running high in France and Germany was keen to obtain French support for the policy of a new Continental Blockade against England. The relative importance of the different reasons why the Franco-German *rapprochement* failed to become a reality will not be known for some time to come, nor will the initial stages of the Franco-British Entente. No doubt the memories of 1870 weighed heavier at the decisive moment than the French themselves would have thought possible in their rage at the hauling down of the French flag at Fashoda. The change in the person of French Foreign Secretary had some influence. M. Delcassé succeeded M. Hanotaux, then the most decided opponent of Great Britain in France; at the same time the distinguished French Ambassador M. Paul Cambon, whose work in London will remain for ever of the most far-reaching importance in the history of our own days, took up his post.

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Still the main reason why France finally decided in favour of an entente with Great Britain rather than with Germany is best summed up in Prince Grigorij Trubetskoy's book on *Russia as a Great Power*.* "In Berlin," he says, "they made haste to take advantage of the new mood of French opinion, and, as it not unfrequently happens in the case of Berlin diplomats, the measure of their tact did not correspond with the degree of their zeal. The first impression in France soon gave way to more weighty considerations; a *rapprochement* with Germany might have very easily enabled the cabinet of Berlin to achieve its aim, which was to lay its heavy hand on the entire French policy; a German-French alliance would have become, to use an expression of Talleyrand, the alliance of a rider with his horse."

The settling of old controversies between the British Empire and France merely established, to our thinking, conditions which ought to be normal in international relations. But for German statesmen, who saw in the system of Bismarck the only normal condition of Europe, an understanding between England and France was a most disquieting incident. "Pursued by the *cauchemar des coalitions*," writes Prince Trubetskoy, "Germany saw in the Anglo-French *rapprochement* a conspiracy against herself and therefore decided to meet it with vigour. That was the aim of the Emperor Wilhelm's journey to Morocco, of the speech which he delivered at Tangier on March 31, 1905, and of the provocative attitude which German diplomacy had assumed towards France." Nothing was better suited to change a mere understanding into something approaching a defensive alliance than the arrogance with which it was assailed. Germany meant to prove to France that the friendship of Great Britain could not save her from German predominance. To avoid a war with Germany M. Delcassé

* Prince G. Trubetskoy's book appeared in Russian in 1911; it is one of the most remarkable books ever written on Russian foreign policy. Prince Trubetskoy has himself played a considerable part in recent Russian diplomacy, but yet remains an impartial observer and candid critic of events about which he knows more than he can possibly state in plain language.

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had to resign the post of French Foreign Secretary. Not even Count Reventlow maintains that the Anglo-French agreement of 1904 had by its provisions concerning Morocco and Egypt in any way hurt German interests, but merely that M. Delcassé had not shown sufficient respect for Germany's leading position in Europe and had formed too high an idea of the value of England's support. "It would have probably proved more profitable for him had he not offended international forms, but had on the contrary kept German diplomacy in good humour. . . ." Summing up the attitude of German diplomacy in 1905, he says: "We should have gone to war in defence of the honour of the German Empire, which had been offended by the policy of Delcassé, but not for rights in Morocco."†

The summoning of the Conference of Algeciras was in appearance a triumph for Germany. In reality, it marked her defeat. She found herself practically isolated among the Powers. Nothing was left of the system of Bismarck. In order to strengthen the position of France, British diplomacy had used its influence with Japan in favour of peace; Russia was "recalled to Europe." At the Conference, Russia worked hand in hand with Great Britain; their co-operation at Algeciras laid the foundation of the understanding of 1907. The United States and even Italy, at the decisive moment, voted against the German claims. By 1905 an equilibrium had been established between France and Italy in the Western Mediterranean and both Powers alike had now a common interest against letting any new Power establish itself on those shores. Meantime Italian interests in the Eastern Mediterranean, in the Balkans, in the Adriatic and the Ægean Seas, and in Asia Minor had increased in extent and importance, and not France, but the Germanic Powers, are Italy's chief competitors in the East. Thus the Germanic Powers found themselves isolated in the final reshuffling of Europe at the Conference of

* *Op. cit.*, p. 266.

† *Ibid.*, p. 268.

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Algenciras. Germany raised the cry that she had been "encircled."

No doubt the fear of aggression by Germany had hastened the settlement of points of controversy between the other Powers. Yet no impartial observer can deny that the desire for a proper organization of international relations played a hardly less important part. The movement in favour of international peace secured by international agreements was growing throughout the world. Three great influences in modern life, education, capital and labour, were working together in favour of "international organization." British and American diplomacy were leading the way in that direction. Germany kept aloof from the movement; the State which under Bismarck had reached the condition of "satiety" complained, now that colonial expansion had become its great desire, of having been excluded from "a place in the sun." The question asked by the Berlin correspondent of *The Times* in 1896 naturally arose again and again: "In what hitherto unappropriated quarter of the globe is the German world-Empire to be carved out, or else how, and from whom, is it to be conquered?"

It was not so much the size of the German army, as the restless will behind it which determined the character of German militarism. It was Germany's opposition to "international organization" on the basis of the existing *status possidendi*, that made her the disturbing factor and hence the enemy of Europe; Prussian Germany had become once more the revolutionary of international politics; and as Metternich had put it a hundred years ago: "il n'y a pas de paix avec un système révolutionnaire." "*Militarism does not really depend on the army*," writes Dr A. H. Fried, one of the most prominent pacifists, in his *Diary of the War*;^{*} "its existence has its root in a certain attitude of

^{*} See *Blaetter fur Zwischenstaatliche Organization* for March, 1915. It ought also to be remembered that Dr Fried is a German, and a patriotic German.

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mind. . . . Militarism seems to me to correspond in the main to the contradiction that exists between the conception of an isolated and self-asserting State and its policy on the one hand, and on the other the tendencies to co-operation and mutual interdependence which at the present day rule the world." The older European States were trying to arrive at a saner and more economical arrangement of international relations; Germany, handicapped by her past history, refused to join in. "The phenomenon which has been described in Germany as the 'Encircling' was on the part of the foreign Powers no more than a natural attempt to attain a degree of strength necessary for the establishment of a policy of organization in Europe. As it could not be done with Germany, it had to be done without Germany in the hope that some day Germany also, which remained behind the time, would join that union for organization. This attempt was *not* in its intention hostile to Germany. . . . There had been no intention to 'encircle' Germany, but it was found with regret that Germany had put herself 'outside the circle.' Germany remained outside, strained her forces to the highest degree, and now we see the result raving blood-red through Europe: the World-War."

Even at the eleventh hour Sir Edward Grey was still dreaming the dream of a world-peace secured by international agreements. He wrote to Sir Edward Goschen in his despatch of July 30: "And I will say this: If the peace of Europe can be preserved, and the present crisis safely passed, my own endeavour will be to promote some arrangement to which Germany could be a party, by which she could be assured that no aggressive or hostile policy would be pursued against her or her allies by France, Russia, and ourselves, jointly or separately. I have desired this and worked for it, as far as I could, through the last Balkan crisis, and, Germany having a corresponding object, our relations sensibly improved. The idea has hitherto been too Utopian to form the subject of definite proposals, but

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if this present crisis, so much more acute than any that Europe has gone through for generations, be safely passed, I am hopeful that the relief and reaction which will follow may make possible some more definite *rapprochement* between the Powers than has been possible hitherto.”*

The system which Sir Edward Grey had taken over from his predecessor and developed resembled that of Bismarck's Chancellorship in only one respect; both statesmen aimed primarily at the maintenance of the *status quo* in matters which directly affected their countries. But whilst Bismarck had attempted it by sowing dissension among the other Powers, Sir Edward Grey tried to achieve it by means of international agreements and organization. Germany, dissatisfied with the existing distribution of power and possessions, saw in Sir Edward Grey's system not an endeavour to bring about world-peace but an attempt to strangle the growth of Germany, which was to take place at the expense of other and weaker States.

* *Great Britain and the European Crisis*, p. 78.

CANADA

I. THE POLITICAL SITUATION

IN the actual test of war the Canadian regiments have not faltered. This we expected and yet we are both proud and sad that a toll of death so heavy as was exacted at Langemarck should be the fruit of valour. If there has been rejoicing over the messages of Sir John French and over the courage and endurance displayed by Canadian soldiers there has been no ignorant boasting or noisy exultation. We understand only that Canadians in contact with the best troops in Europe have not dishonoured the Dominion and the Empire. We rejoice only because they are not unworthy to stand beside the regiments of France and Great Britain. But we have no thought that the men of South Africa, New Zealand or Australia possess in any lesser degree the qualities which Canadians have displayed and we know that British and French and Russians have revealed just such qualities in many stern sorties and many desperate engagements. We did not need to be told as an old guide once said to a group of tourists on the field of Waterloo that "there be brave men everywhere." But the older nations have been tested in many campaigns while the volunteers of Canada have been engaged in peaceful pursuits and have practised war chiefly in seasonal training and holiday parades. This is why we had only faith without evidence, why we are glad that our faith was justified, and

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why we feel just such a thrill of pride over the action of Canadians at Ypres as we felt when the "Sydney" captured the "Emden" and when South Africans under Botha resisted invasion and put down domestic revolution.

Nor is it remarkable that the heavy casualties in the Canadian regiments have produced a grimmer spirit in Canada and greatly stimulated recruiting. When all is said there is a religious fervour in the devotion of Canada to the Empire. It was chiefly in this spirit that the Canadian regiments were enrolled. It is in this spirit that any sacrifices we are making are regarded. It was whispered that native Canadians were not numerous in the first contingent from the Dominion, but the casualties among officers show that very many of these were Canadians and that they belonged to the most wealthy and influential families in the country. In this there is no glory that does not fall in equal degree upon the private soldier, but there is an answer to a species of unnecessary and ungenerous criticism to which thoughtless and uninformed Canadians themselves gave a certain sanction. There are now over 40,000 troops from the Dominion in England, in Bermuda, in Egypt and on the Continent, and many thousands under training. In all we have over 100,000 men under arms, the great bulk of whom are almost ready for active service. As Sir Robert Borden told Parliament, we have a far greater army than Wellington commanded at Waterloo. For war purposes we have appropriated \$150,000,000. Against the organization of this army and against this huge appropriation for a young country there has been practically no protest in Parliament or from any section of the people. It is true that two Nationalist members of the House of Commons made perfunctory objection to the amount appropriated but even they perhaps were thinking chiefly of rash pledges made to their constituents. In Quebec recruiting has been active. The French daily newspapers, with the single exception of *Le Devoir*, support the war proposals of the Government as heartily as do their English contemporaries. Dealing with

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the casualties along the Yser *La Patrie* of Montreal said:

"On the complete list of casualties will appear, wrapped in a common glory, names of English and French-Canadians. Both Canadian nationalities faced the Empire's enemy with the same patriotic dash, the same disregard of peril, the same determination to win. They shed their blood together on the Empire's battlefield. This union is bound to bring other fruit than a direct military advantage. It should, within the Canadian border, tighten the bonds which unite the two races, dispel their last causes of misunderstanding and eradicate whatever prejudices still subsist between them. It should forever enlighten with respect to the sentiments of the French-Canadians those of our fellow-citizens of English extraction who are sometimes disposed to suspect us of disloyalty. This union of our sons on the battlefield proves the common devotedness of the two races to Canada, our country, and also their common bond of affection to the Empire, whose powerful and benevolent protection will help to achieve the glorious destiny that we predict for our country."

Here also is an extract from *La Presse*, the most widely circulated of French Canadian newspapers:

"We are all proud of the high deeds accomplished by the Canadian soldiers in Belgium, but at the same time we mourn the death of those who have fallen on the battlefield for the noblest cause. Our sorrow is somewhat tempered when we realize that all those dear warriors and fellow citizens have died in the most gallant manner they could dream of. Glory to our first contingent. Glory above all to the dead and injured. Honour to all the brave men who have raised Canada in the eyes of the whole world."

The only criticism in English newspapers is that our

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exertions are not adequate, that we should have at least 100,000 soldiers in Europe, that we should accept all recruits that offer and that we should urge the Imperial authorities to draw more freely upon the resources of the Dominion. As to this the Minister of Militia declares that as many troops will be provided as the War Office will accept. The gaps in the regiments at the front will be filled at once by drafts from Shorncliffe. The remainder of the second contingent is ready to embark. Recruiting has begun for third and fourth contingents. What will be the ultimate measure of our contribution will depend greatly upon the Imperial Government and no doubt between the British and Canadian authorities there is a complete understanding.

During the session of Parliament much partizan feeling developed. There was no division on the proposal to vote an additional \$100,000,000 for war purposes. But the Opposition challenged the details of the budget. Hon. W. T. White, Minister of Finance, recommended a general increase of $7\frac{1}{2}$ per cent in Customs duties and an increase of 5 per cent on goods from Great Britain. He also sought authority to increase postal charges and to impose stamp duties on cheques, and railway and steamship tickets. It is clear that the object of the Minister was to lay taxes which could not be evaded, which would assure a material increase of revenue, check importations and reduce the balance of trade against Canada and which incidentally would improve the position of Canadian manufacturers in a period of trade depression. The Opposition submitted an amendment urging greater economy and condemning the higher duties on British manufactures. It was suggested that the Government was using the fact of war to fatten the "privileged interests" and that to disturb the British preference savoured of treason. On behalf of the Government it was contended that as duties against foreign countries were raised by $7\frac{1}{2}$ per cent and against Great Britain by only 5 per cent the British preference was actually enlarged by

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2½ per cent. It was further insisted that since the duties on raw material for Canadian manufacturers were increased by 7½ per cent it was necessary in justice to domestic industries to lay higher duties on imports from Great Britain as well as from foreign countries. It was also argued that since direct taxation was the natural prerogative of the Provinces it was undesirable in a time of falling revenue to disturb their sources of income. There is this to be said for the Federal Government that under the conditions which prevail the Provinces must impose additional taxation. For example Ontario and Nova Scotia have laid a tax of one mill on the dollar on all assessable property. Doubtless the other Provinces will also have to adopt somewhat revolutionary fiscal expedients.

Beyond the quarrel over the tariff there were charges of "graft" and waste in war contracts. Much evidence was taken before Parliamentary Committees and undoubtedly irregularities were disclosed. It was proved that boots of doubtful quality were supplied by a few manufacturers. Excessive prices were paid for drugs and binoculars. There were dubious transactions in the purchase of horses. But nothing that was disclosed brought discredit upon the great body of Canadian manufacturers or involved Ministers in deliberate wrongdoing. Moreover Ministers assisted to make the investigations complete. There was no attempt to prevent disclosures or to shield offenders. One or two dealers were compelled to make restitution. Against other suspected persons the Department of Justice will initiate prosecutions. Two Conservative members of Parliament involved in doubtful transactions were sternly condemned by the Prime Minister from his place in the House. Since Parliament adjourned a purchasing commission of able and reputable business men, with Hon. A. E. Kemp of Toronto as Chairman, has been appointed to superintend all purchases of war supplies for the Canadian, British and Allied Governments. Upon the whole it cannot be said that the Government was seriously

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discredited by the revelations. The Prime Minister by his resolute and unequivocal action probably strengthened himself in the regard and confidence of the country. Many abuses attach to the patronage system as it has existed in Canada. It was perhaps inevitable that in outfitting the first contingent there should have been a degree of waste and extravagance. We have known nothing of war, and it was a great task to organize an army of 100,000 and dispatch 40,000 or 50,000 troops to Europe. It may be that we have legitimate cause for congratulation that greater scandals were not exposed and greater waste not disclosed. At least the Government did not block investigation or reveal any disposition to protect jobbers and plunderers.

It may easily be understood, however, that the controversy over the Government's tariff proposals and the action of the Opposition in forcing inquiry into war contracts inflamed partisan feeling in Parliament, and produced much acrimonious debate in the newspapers. The Government Press contends that the Opposition has shown no consideration for Ministers in a time of unexampled trial and difficulty while the Liberal Press insists that the Opposition has sought only to check waste and jobbery and to prevent fiscal changes detrimental to the Mother Country and to the consumers of Canada. In such an atmosphere it is not remarkable that the project of a general election should be revived. There is no doubt that when the war came the Government was contemplating dissolution. There was serious thought also of a general election six months ago. But many voices protested against a contest between the parties during the war. These protests continue and clearly enough feeling against an election is not confined to the Liberal party. But it is doubtful if those who protest will prevail. Ministers favourable to an appeal to the country recall the defeat of the Naval Aid Bill and other important ministerial measures by the Liberal majority in the Senate. They point out that over twenty

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Western constituencies have no voice either in the Commons or the Senate. They remind the country that twice the Upper Chamber has rejected measures sent up from the Commons to give the West adequate senatorial representation, and they suggest that the only object is to retain control of the unrepresentative chamber. It is declared by the Government but denied by the Opposition that when the seats for the Commons were redistributed a year ago with such absolute justice that not a single detail was challenged by the Opposition there was an understanding that immediate increase of Western representation in the Senate would be sanctioned. It is said further that if not held in 1915 there must be a general election in 1916, that there is no assurance that the war will be over before Parliament must be dissolved, and that it has been almost the invariable practice ever since Confederation to dissolve when four sessions of the Houses have been held and before the full constitutional term expires. This was the practice of Sir John Macdonald as also of Sir Wilfrid Laurier. The Liberal Government dissolved Parliament in 1900 during the war in South Africa. During that war there was also a general election in Great Britain. Since the war in Europe began there have been general elections in New Zealand and Australia. What reasons, it is asked, can be advanced against a general election in Canada that were not just as potent in the other Dominions? As further justification of an election it is pointed out that probably in 1916 there will be an Imperial Conference to consider terms of peace and other questions of supreme significance to the Empire. It is necessary, therefore, say the champions of the Government, that Ministers should speak with the authority of direct popular sanction and with reasonable certainty that proposals to which they may agree will not be rejected by a hostile Senate as was the emergency naval programme. It has to be remembered that not for twenty years have Conservative Ministers represented Canada in an Imperial Conference. There is conflict between the two

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Canadian parties on great features of Imperial policy. With approval of its war appropriations and its attitude towards the Empire a Conservative Government would speak with assurance and confidence in London. Finally it is contended that a state of war prevails between the parties, the Government is embarrassed by constant criticism and attack, and that since a general election cannot be long delayed it is desirable to have the contest over so that the energies of Ministers may be wholly devoted to the prosecution of the war and their attention centred upon the Imperial problems which will demand consideration when peace is restored.

On the other hand the leaders of the Opposition insist that they have supported with zeal and ardour the strictly military measures of the Government. They say that they should be free to examine details of Administration. They point out that neither in Parliament nor in the country is there any division of opinion over the war or any necessity to ask for approval of war expenditures or the action of the Government in organizing and equipping armies for service in Europe. They contend that the Government seeks to trade in Imperial feeling for partisan advantage but that with the long and increasing roll of casualties, with mourning in many households, with hospitals filled with wounded, and with young Canadians still seeking the recruiting stations, to plunge the country into a political contest would be indecent and intolerable. All the sound argument is not upon one side or the other, nor will there be freedom from partisan controversy if Parliament is not dissolved. A general election, however, seems to be imminent, although it cannot be said that public feeling so far as it has been expressed is favourable to a contest.

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II. THE ECONOMIC SITUATION

THE time is not ripe for a final or even an adequate consideration at the present moment of the effects of the war upon economic conditions in Canada. We are at present in an intermediate stage between the first shock of the crisis and the changes that must come after peace has been secured. In any case it is a matter of great difficulty to decide how much of our present position we must attribute to the over-expansion which preceded the war, and how much we owe to the actual shock of the conflict. The process of liquidation that began in 1912, and which was active in 1914 when war was declared, has been visible under slightly different forms ever since. It is quite probable that if peace had been maintained this liquidation might have been interrupted by a temporary return of industrial and financial activity. It is not by any means true that a full liquidation always immediately follows a period of inflation. For example, the crisis in the United States in 1907 was followed by a partial liquidation, but the real settling up did not occur until 1910. In Canada, however, the war has precluded a return of prosperity, and the continued liquidation is reflected in the position of the Canadian banks, which now show a decrease of \$70,000,000 in the current loans between July, 1914, and February, 1915. Gold and securities have been materially increased and savings bank deposits, although between August and November there was some evidence of withdrawals, remained in February almost precisely as they were in July. Perhaps the most striking point in our external relations was the unduly large surplus of imports. This position, under the stress of war conditions, has almost entirely changed within the last two or three months. Nevertheless the state of Exchange between Canada and the United States still remains abnormal, New York Exchange being still worth not much

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short of three-fourths of one per cent premium. However, with the disappearance of the surplus of imports and the continuance of the sale of Canadian securities to the United States this condition will disappear. Since the war began Canada has sold to the United States in the neighbourhood of \$70,000,000 of securities. It must be remembered that we have not only had to deal with the gradual shrinking surplus of imports, but also with the interest on our external debt, which averages in the neighbourhood of \$10,000,000 a month, and in addition to that we have had to meet a large exterior expenditure involved in paying and maintaining some fifty thousand soldiers in Europe. The opening of navigation even as soon as this spring will release a very considerable amount of wheat, and the proceeds of its sale must be added to our export values. With the large area of wheat that has been planted this last season we should, under favourable conditions, have an additional amount of export material over that of last year with which to pay nearly the whole of the interest on our external debt, and as a result, even if the sale of securities to the United States should not continue in the same or greater volume, the financial position of Canada in regard to the outside world should by next autumn have become entirely sound. Whether the market in the United States for Canadian securities can be in any way adequate to take the place of the London market would seem very doubtful. In the sales made during the last few months we have been favoured by several special circumstances. In the first place, the establishment of the central banking system has released very large funds, and, in the second place, trade in the United States has been very dull, with the consequence that only small demands for money have been made for commercial purposes. It is not likely that this last condition will last for very long. A considerable amount of the surplus funds created by the central bank have already been absorbed in other foreign loans, and if the New York Money Market should seriously take up the financing of its South

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American connections it may be more difficult in the future for Canadian securities to be sold at favourable rates in the United States.

In regard to the internal economic condition of Canada, it is perfectly natural that the newer parts of the country should be the main centres of anxiety. Several cities in the west have been somewhat embarrassed by the extravagant assessment of city values, and too much haste to proceed with municipal improvements ahead of actual requirements. They have lost and are losing population, and the collection of taxes on their high assessment values has been somewhat difficult, but on the whole these towns appear to be meeting the situation with courage, show no disposition whatever to consider the question of a default on their interest, and in many cases are beginning the process of cutting down their assessments. Although last year prices for grain stuffs were high, it must be remembered that the crop was small. Still the principal interest on farm mortgages are being surprisingly well met. It seems clear that land speculation has not seriously affected the rural districts, and the farmer is showing various indications of the possession of means. Moreover, the small towns and villages are thought to be in a fairly sound position. If, therefore, the large area of grain planted for this season should meet with favourable conditions, and the crop should be as large as we may fairly expect, the effect on the whole west must be very beneficial indeed, and it is quite inevitable that the western cities will get their fair share of the benefits accruing. It is very interesting to notice that throughout the whole country there is a growing evidence of the importance of primary production. The long tradition, literary, economic and financial, that has favoured industrial enterprise at the expense of agriculture seems to be drawing towards a close. Certainly there is a great deal of mere fashion and sentiment in the desire of the young man in the country to drift into the town. A general change of sentiment in this respect, quite apart from any real alteration in conditions, may have

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a very important effect on the relation in the future of municipal and rural populations.

In a country like Canada, advancing with rapidity, it is not possible to maintain a correct balance between the various activities. For the moment railway and industrial construction have gone perhaps far ahead of immediate requirements. It should be the business of Canada during the next few years to restore a proper balance, and with the assistance of properly directed immigration this may be accomplished in a surprisingly short period.

III. THE BI-LINGUAL SCHOOL QUESTION IN ONTARIO

ATTENTION has already been directed in THE ROUND TABLE to the controversy which has arisen in the Province of Ontario over the use of the French language in the schools. Some three years ago the Government decided, as the result of a careful inquiry, that in the schools where French was used too little care was being taken to give the pupils an adequate knowledge of English. It drew up, therefore, new regulations requiring that English be taught from the beginning of the school course, and be the language of communication and instruction after the first two years. Special inspectors were appointed to see that the enactments were enforced. The Government did not propose, however, to remove French from the schools. It might remain the language of communication and instruction during the first two years, and could be retained as such even later where circumstances in the judgment of the inspectors required it. Moreover, after the first two years, it was in all cases a compulsory subject in the curriculum, to be taught for not more than one hour a day. These regulations were accompanied by measures to improve the training in both languages of those teachers who were to be engaged in English-French schools. The whole policy was intended to better

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the position of English in the schools without destroying French.

The regulations have not, however, commended themselves to several of the school boards administering French-English schools. They have refused to adopt the regulations and to receive the special inspectors, urging as among the reasons for their action that too little French is allowed, whether for purposes of communication or of instruction, and that since the regulations apply only to schools where French has "hitherto" been taught, new schools may not enjoy even these privileges. Even the forfeiture of the Government grant, which the action of the boards involves, has not induced them to comply with the Government's policy. In consequence some 190 out of the 325 French-English schools are at present deprived of provincial funds. The most powerful of the boards thus opposing the new regulation is that in the City of Ottawa, which controls the Separate or Roman Catholic Schools. Among these schools are many frequented by French-Canadian children, and since a large part of the board consists of French-Canadians, the Government's measures have been resisted, with the result that all the Separate schools are denied financial assistance from the provincial treasury. Of the schools, however, a number are used and supported by English-speaking Roman Catholics. These people have no quarrel with the Government's policy, but they are brought by the action of the school board into opposition to the Government and see their schools crippled. They have been much embittered by their experience, the more so since the board recently dismissed the English-speaking teachers in its employ. Many of them have removed their children from the Separate schools, and some of them have taken legal proceedings against the school board to restrain its chairman from dismissing teachers and to prevent it from borrowing money on the taxes and property of all the Separate school ratepayers. Thus the first test which the Government's regulations were given before the Courts

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came not from any direct appeal against its action, but from the protest of the English-speaking minority in Ottawa. The Courts hitherto have sustained the claims of the minority and have also declared the regulations valid as coming within the powers of the province.

The situation in Ottawa illustrates the peculiar twofold controversy created by the growth of the French-Canadian population outside the Province of Quebec, and especially in Ontario. Early in the history of Ontario many French-Canadians found their way into different parts of the province. Some of them were assimilated by the English-speaking population, just as so many English and Scotch settlers had been assimilated in Quebec. Others retained their language and had it taught in their schools. As early as 1851 they obtained from the Council of Public Instruction the privilege of engaging teachers who could give instruction in French. By 1860 the French certificate of qualification from Lower Canada was accepted in Upper Canada, and five years later the use of French text-books authorized in Lower Canada was permitted. Dr Egerton Ryerson, famous in Ontario history as the founder of the public school system, was responsible for the decisions which thus established the French language in Upper Canada. French was an official language of the country which since 1841 had been united under one government. Hence Dr Ryerson was of the opinion in 1857 that "it was quite proper and lawful for the school trustees to allow both languages to be taught to children whose parents might desire them to learn both." In 1861 he was ready even to admit that teaching in English need not be provided for an English minority in a school section. The inquiry came in this form: "In a school section where the majority of the inhabitants are French, and all the trustees and teachers French, can the English portion of the school section compel the trustees to furnish the means of education for their children, that is to say, a teacher able to teach in both English and French?" Dr Ryerson replied: "The

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law allows French and German as well as English to be taught in the schools; and as the law does not compel the trustees to employ a teacher who can teach German or French where a portion of the inhabitants speak the one or the other of these languages, so it does not compel them to employ a teacher to teach English where a majority of the inhabitants and of the trustees are French or German. It is a defect in the law, and there is no remedy for the case you mention until the law is amended in that respect." These arrangements survived even the revolution which Confederation effected in the Constitution of Canada. They were still further developed in 1872 and again in 1883 and 1888, when the County Councils within whose jurisdiction there were French or German settlements were authorized to appoint examiners in the French or German language.

By 1885, however, it was becoming clear both to the English and French-speaking populations of Ontario that these local liberties were resulting in too great a neglect of the English language. Hence in that year a regulation of the Department required that English be taught in all schools. In 1886 the county of Russell requested that a better professional training be furnished for French teachers, and three years later a model school for this purpose was established to serve the counties of Russell and Prescott. The work of the school and the examinations were conducted in English, though French Grammar, Composition and Reading had a place among the regular subjects taught. At the same time a convention was inaugurated for the benefit of the teachers in the English-French schools of these two counties. In 1889 the first commission to inquire into the position of English in all the English-French schools was appointed. It emphasized the difficulty which trustees experienced in finding teachers who could speak both English and French. Commissions appointed in 1893 and 1895 for special areas noticed the same difficulty. Teachers fitted to discharge the double task were not yet available, and, even if they had been, the compara-

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tively poor school districts might not have been able to engage them. One of the hardest problems in education, that of teaching two languages effectively, confronted the least organized and more remote parts of a new community.

It is little wonder that the bi-lingual school experiment as it was tried between the 'eighties and the end of the first decade of this century was not very successful. Moreover, the strain put upon it constantly increased because the French-speaking population grew rapidly in numbers during this period. Settlers poured from Quebec into Eastern and New Ontario, until to-day this race numbers in Ontario over 200,000. In these circumstances the supply of teachers qualified to instruct in English and French proved entirely inadequate. The schools in those districts in which the majority of the ratepayers rapidly became French-speaking naturally fell under French influence. Teachers were not available to give an adequate instruction in both languages. It was easier for teachers, trustees and inspectors alike to let French dominate the school curriculum. There remained in the schools only enough English to prevent them from being as effective as might have been possible in French alone. Meanwhile those people of English speech who were being surrounded by the incoming French-Canadians found greater and greater difficulty in securing an English education for their children. The result was dissatisfaction on their part, and finally, in 1911, a protest against the condition of the schools. The rest of Ontario had been indifferent to the growth of the French-Canadian population and to the relations between the two languages. The protest, however, roused general attention. It led to an inquiry by the Government and to the present regulations.

The controversy occasioned by the bi-lingual schools in Ontario is, of course, meat and drink to those persons who are incapable of holding other than the most extreme opinions. A number of French-Canadians have carried on an active propaganda for the extension of the French race and the French language in Canada. For them the spread

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of the French settlers into Ontario, where they replace an English-speaking population, has had almost the character of a crusade. Canada is to be the home of French civilization on this continent and is to draw at least into spiritual communion with itself the French-speaking portions of the American Republic. Hopes have been entertained and at times expressed that the French element might grow strong enough to maintain its independence within the present Dominion, or, if that situation were not satisfactory, apart from it. By all enthusiasts thus devoted to a rather narrow conception of their own race and its future, the institutions and politics of Canada and of the British Empire, and indeed the affairs of the world, are viewed solely in their bearing upon the fortunes of the French-Canadians. History, public issues and foreign relations are seen through the spectacles of a particular race and creed. Even the great war is regarded with little approval because it does not fit in with the plans of this section of French-Canadians. It seems likely to strengthen the ties which bind the parts of the British Empire, and to carry French Canada into the current of world affairs. The narrower schemes, the cultivation of an intensive local patriotism may thus be endangered. Hence to the surprise of nearly every one in Canada, these zealots are unmoved, despite their professed devotion to everything French, by the sufferings of France and Belgium. They are ready to defend the soil of Canada, though the soil is quite safe, and its defence would not materially assist the Allies, but declare themselves under no obligation to enter the real theatre of war. The lot of their compatriots in Ontario remains their one concern, and with what must appear an utter lack of taste, when their own attitude is considered, they describe the French Canadians in Ontario as *les blessés*, and those responsible for the present regulations as *les bôches*.

Over against these extremists must be set that section of the English-speaking population which sees in the growth of the French race and language in Ontario a real danger,

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and which would prohibit the teaching of French in Ontario schools. That Ontario is and must remain an English-speaking province is a first principle with these persons. They are willing (though with none too good a grace) to let Quebec be French, but propose to concede nothing further. The Empire wrought by the people of English speech must not be undermined. These sentiments are very familiar, especially after conventions and gatherings of those peculiar lodges and societies which set up their own special brand of loyalty as the only test of patriotism.

It is a reasonable and safe conclusion that the true settlement of the present controversy lies somewhere between the views of these extreme schools. They live in a world of racial antagonisms. Yet a society like the British Empire must and can rest only upon the principle of good will and conciliation between races. There must be room within such a varied and extensive community for the most divergent racial types, and these types must have freedom, otherwise they will never give a willing and complete devotion to the larger State. Canadians, therefore, should accept it as an axiom that the French-Canadian population must be free to retain its individuality. This freedom can scarcely be limited to Quebec, for the population has already gone far beyond that province, and to treat Quebec as a reserve is only to impose a narrow and harmful isolation upon a valuable element in the community. Moreover, no policy which is repressive or even appears such to those affected by it can be successful. All experience points to the failure of efforts to deprive peoples of their language. The extensive experiments in this direction conducted by Prussia and Hungary have not even success to justify them. We shall do well not to consider a similar course. It could only have the effect in Ontario of driving French-Canadian children into private schools which would be beyond Government control altogether and might easily fall below the accepted educational standards.

These two principles should be capable of application

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in Ontario. They do not mean that the population must be sharply divided into two camps, the one purely French, the other purely English-speaking. The French population in Ontario has always professed its willingness to learn English. English can therefore be taught in the French schools. How and when it is to be taught, so as not to impair the French language, is a problem for experts and is not insoluble, if we may judge from the experience of other parts of the British Empire. The present regulations are themselves an attempt to meet it, and may be successful if they can secure the confidence of all parties. Should they not win this confidence, every opportunity must be given for the consideration of amendments in them. Particular details and a special form of words must not stand in the way of good relations between fellow-citizens, and no administration should be prevented by a fear of appearing inconsistent or by a sense of dignity from trying by every means to remove a grievance. It is probable that if once gathered around a common council-board the representatives of the different interests could easily and quickly reach a settlement. The position of French in the English-speaking schools must also be considered. At present it is limited to the secondary schools and is taught too much out of relation to its presence as one of the official languages of Canada. Its use should be extended for practical and educational reasons, so that a larger part of our English-speaking population might command another of the great languages of the world.

That after some such fashion the present controversy will reach its end may reasonably be expected. Nearly every one is approaching these matters in a better spirit. Local disputes are dwarfed by comparison with the great struggle which the people must wage in common. The extremist of English speech finds himself more in sympathy with civilizations other than his own, and especially the French and the Belgian. His opponent cannot deny the value of the services which are rendered by a varied and

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comprehensive State such as the British Empire. At least the value of these services is apparent as never before to the French population, and those few French-Canadians who still appear to question it, like M. Bourassa and M. Lavergne, are rapidly losing their influence with their own people. Appeals to narrow, selfish, not to say cowardly, provincialism fall on deaf ears. The splendid tradition of the French race on this continent is having its effect, and as the war progresses no element in the Canadian population will play in it a more heroic and self-sacrificing part.

AUSTRALIA

I. THE IMPERIAL CONFERENCE

THE question of summoning the Imperial Conference for its appointed meeting in 1915, discussed in the last number of *THE ROUND TABLE*, has received some attention in Australia. Responsible opinion appears cautious in the matter, and anxious to wait awhile. A leading politician in the Commonwealth, whose opinion will carry great weight whenever a decision comes to be taken, can see nothing but embarrassment and possible danger in the present discussion of the delicate questions arising out of the changed position in the Pacific. Ultimately, of course, there must be discussion and with it, doubtless, some plain speaking on matters wherein the Imperial Government and the Australian Governments may not readily be at one. For this reason, Dominion representatives should accompany the British delegates who attend the Peace Conference, when that stage is arrived at. But as yet the whole situation is too uncertain, the object of the war on our part not sufficiently near achievement, for it to be wise to enter upon discussions which must be based on conjectures and possibilities rather than upon accomplished facts. Nor, in the opinion of the same statesman, is the present the time for "the re-adjustment of our relations with Great Britain." "War is not the normal condition of civilization. But Imperial Federation must deal with the more prosaic requirements of a Government whose constituent parts are

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scattered all over the earth. Let us deal with this matter when we are not obsessed with this one idea of war! ”

On the other hand, old and not agreeable memories are aroused by the knowledge that, in some quarters at any rate, the Pacific has been indicated as the appropriate field of concessions by Great Britain, a suggestion which has stirred some Australians to a desire for vigorous protest. On the subject of the necessity for preliminary discussion and agreement among the accredited representatives of the several British Governments in advance of the international conference, there is probably no difference of opinion in Australia: the only question really is as to the time—now, or when the end is more clearly in sight.

II. FEDERAL POLITICS

SINCE the general elections of September 5 last, when the Liberal Ministry of Mr Cook was defeated and the Labour Ministry of Mr Fisher succeeded it, there has been a Parliamentary session during which the Treasurer's budget was disclosed, legislation for new taxation was carried, and Supply was passed. The detailed consideration of the estimates was, however, held over until a session which is to commence in April next. Two vacancies have occurred by death, both in the House of Representatives, each of them in the representation of the State of Victoria. Both of the deceased were members of the Labour party, and one of them, Mr Arthur, the member for Bendigo, a rising barrister, and a man universally respected both in the House and in the country, was Minister for External Affairs in the present Government.

At the by-elections to fill these vacancies, the Bendigo seat was retained by Labour, but the other vacancy, in the Grampians Division, was gained by the Liberals. In both cases the majority at the poll was a narrow one, and although

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the Labour majority in the House of Representatives was reduced thereby from 13 to 11 in a total of 75, it cannot be said as a result of these elections that there is any real evidence of a change of political feeling on the part of the electorate, although such change is naturally claimed by some sections of the Liberal press.

The Grampians Division is ordinarily regarded as a fairly safe Liberal seat, and at the general elections was won by Labour largely on account of the personal popularity of the Labour candidate. Its reversion to the Liberal party at his death, consequently furnishes no real evidence of general change of opinion on the part of the community. Party feeling, although subdued in consequence of the war, is not absent, but all parties are anxious to assist the Government in every way to secure the adequate representation of Australia in the fighting line.

The matter of preference to unionists was one of the burning questions at the general elections in September last and was specially made so by the Liberal party, who urged, as one of the important reasons for excluding Labour from the Treasury benches, the fact that if the Labour party were returned this "iniquitous principle" would be enforced. Under these circumstances, and in view of the substantial majority which the Labour party received in the House of Representatives, and its overwhelming majority in the Senate, it is not a matter for surprise that the party should hold that the verdict of the country was in favour of such preference. Under the preceding Labour Government the principle was enforced to a considerable extent, but its field of operations has been enlarged since Labour's return to power in September last. The mode of application to which strongest exception has been taken has been the stipulation in Federal Government contracts that preference to unionists must be given by the contractor.

The development of this policy has been exemplified in a striking way; firstly, in Victoria, in regard to the fitting out of transports for the Navy Office by the State Government

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Shipyards; and secondly, in Queensland in connection with the erection by the State Public Works Department of buildings for the Federal Department of Defence. The Governments of both these States on being pressed by the Minister for Defence to give preference to unionists in carrying out the works, refused to do so, with the result that the work was taken out of their hands and other arrangements made by the Commonwealth Government for its completion.

Another matter of great interest in the field of Federal politics is the proposal to construct a cross-country line of railway from Port Augusta in South Australia to Brisbane. Up to the present the matter is little more than a suggestion but the line is strongly favoured by the Prime Minister, who states that its main purpose will be strategic, but that it will in addition assist in the opening up and development of valuable country, besides shortening considerably the distance by rail between Perth or Adelaide on the one hand, and Sydney or Brisbane on the other. It is estimated that the cost of the connection will be £6,500,000.

The first half of the financial year 1914-15, which ended on December 31, 1914, included the first five months of the war. In consequence of this, and of the prevailing drought, it was very generally thought that there would have been a marked shrinkage in the Commonwealth revenue. The results, however, which the Federal Treasurer has been able to disclose are very satisfactory, and though the Customs receipts were somewhat inflated by heavy withdrawals from bond in anticipation of tariff amendment, the fact that Customs and Excise revenue for the half year exceeded that for the corresponding half of 1913 by £130,000 was one not very generally expected. A feature of the return is naturally the relatively heavy expenditure on Defence, and whilst this item (including Construction of Fleet) was represented by £1,568,000 for the six months ended December 31, 1913, the corresponding item in 1914 was represented by no less a sum than £6,241,000.

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III. THE AUSTRALIAN IMPERIAL EXPEDITIONARY FORCE

ACCORDING to official statements recruiting for the Expeditionary Forces is progressing satisfactorily, and nothing in the nature of a regular recruiting campaign has yet been found necessary. The various contingents which have already left or which are now being trained or organized are specified below, but this list does not of course necessarily comprise the full force which will be sent from the Commonwealth.

In addition a further Infantry Battalion has already been offered by the Minister for Defence and arrangements are being made to send a flight corps to India.

The total and strength of the forces which will have left Australia by April will be about 52,500 men of all arms.

1st Contingent: 19,463 men of all arms—In Egypt.

Hospital Division: 1st, 2nd and 3rd Field Ambulance, 762 men; 1st Light Horse Field Ambulance, 118 men—In Egypt.

2nd Contingent: 10,259 men—In Egypt.

Motor Transport Corps: Ammunition Park, 471 men—In England. Supply Column, 245 men—In England.

3rd Contingent: 8,611 men of all arms—Left Australia in January.

4th Contingent: Including first reinforcement 12,184 men of all arms—To leave in about April.

Bridging Train: Royal Naval Reserve men, 311 in all.

Monthly Reinforcements: 4,636 men of all arms.

IV. THE AUSTRALIAN NOTE ISSUE

SINCE the commencement of the war the issue of Australian notes by the Commonwealth Treasury has been very largely increased, and the Commonwealth Government, by means of Orders in Council, in accordance with the

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Australian Notes Act, has taken power from time to time to increase the maximum which may be outstanding at any one time, the latest maximum so announced being £30,000,000. Complete bank returns are now available for the quarter ended December 31, 1914, and these indicate that with the increase in issue there is an increasing proportion held by the banks. Notwithstanding this, the amount in the hands of the public has grown considerably, owing largely to the efforts of the banks and the Treasury to substitute note circulation for gold circulation wherever and whenever practicable.

The following statement of the position for each of the quarters of 1914 furnishes an interesting view of the trend of matters in connection with the note issue and circulation.

Quarter ended	Average amount of notes for Quarter			Proportion in hands of Banks
	Held by Banks	In hands of Public	Total Outstanding	
	£	£	£	per cent
March 31, 1914	5,170,000	4,650,000	9,820,000	52·6
June 30, 1914	5,040,000	4,670,000	9,710,000	51·9
September 30, 1914	5,840,000	5,060,000	10,900,000	53·6
December 31, 1914	8,790,000	6,750,000	15,540,000	56·6

The returns available up to the present indicate that for the quarter ending March 31, 1915, the average amount outstanding will fall but little short of £24,000,000, an increase of about 8½ millions. for the quarter. What amount is held by the banks it will be impossible to say until the complete bank returns become available in May, but it

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appears probable that the proportion will be found to be in the neighbourhood of 70 per cent. In connection with this question of note circulation it is of interest to observe that the amount in the hands of the public for the December quarter represents approximately 27s. per head of population. In addition to this there were bank notes in the hands of public not yet withdrawn to the amount of about 1s. per head, giving a total note circulation of 28s. per head.

Under the bank note system the maximum note circulation in Australia per head of population was reached in the December quarter of 1885, the average note circulation for that quarter being £4,650,000 and the average per head of population 34s. 8d. At the same proportion, the present population of Australia could maintain a note circulation of upwards of 8½ millions.

The latest returns relative to the Australian Notes Fund indicate a gold reserve of 40·16 per cent as compared with the statutory reserve of 25 per cent. In this connection it may be noted that in accordance with the Notes Act interest earned by the investment of the Fund is paid to the credit of the Fund for the additional security of the issue, so that reserve and investments together at any time represent a considerably larger sum than the total amount of notes outstanding.

On March 1, 1915, the amount of notes outstanding was £25,232,000 while the gold reserve was £10,133,000 and the amount of investments £15,987,000. Reserve and investments thus totalled £26,120,000, or £888,000 in excess of the amount of notes outstanding. The investments (Commonwealth and State Government securities) as at March 1, 1915, were earning interest to the amount of £612,000 per annum.

Governmental Regulation of Prices

V. GOVERNMENTAL REGULATION OF PRICES

OF the numerous questions more particularly affecting Australia which have arisen out of the war probably none has excited more general interest than the action taken to control prices and supplies of commodities during war time. The Acts passed by the Governments of certain of the States to regulate prices led in turn to the passing of further Acts for the compulsory acquisition of wheat supplies, involving an alleged infringement of the right of free trade between the States, a right guaranteed by the Commonwealth Constitution. In this way constitutional issues of an important character have been raised and these are now occupying the attention of the High Court. Though an Act for the regulation of prices and the prevention of "cornering" supplies was passed in Western Australia as early as August 8 last, the action taken in this direction by other States was not initiated until after a conference of Federal and State Ministers had been held in that month for the purpose of discussing the financial position and other questions raised by the war. Already there had been a marked increase in the prices of certain commodities, more especially imported articles, and there was evidence in a few instances of attempts to benefit in this national crisis by the withholding or cornering of supplies. In each of the States there was a general realization of the existence of a grave emergency, which rendered it impossible in the public interest to leave the food supply of the community any longer to the ordinary service of private trade. Thus it was decided at the Inter-State Conference that each State should introduce uniform legislation for the purpose of controlling prices. As a further outcome of this Conference a Federal Royal Commission was appointed at the end of August to collect information and

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report upon such matters as the supply of foodstuffs and of other necessary commodities and any other important matters relating to conditions of trade and industry arising from the war. Though not explicitly stated in the Commission it was intended that this Federal body would act as a co-ordinating authority in regard to the actions of the State Commissions to be appointed under the expected uniform State legislation. However, this whole plan of action miscarried; the legislation passed by the States varied in several important features, while there has been an almost complete absence of co-ordination in the operations of the Commissions and Boards appointed in the several States to fix prices. The work of the Federal Commissioners was brought to an end soon after the advent of the Labour Party into power in September last and no new appointments were made.

The following statement shows the Acts passed in each State:—

- (a) With a view to fixing prices;
- (b) For the supplementary purpose of collecting information as to stocks of commodities; and
- (c) For the compulsory acquisition of commodities.

The Bills introduced in Tasmania and passed by the House of Assembly were rejected by the Legislative Council.

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COMMONWEALTH OF AUSTRALIA

*Acts and Bills of State Legislatures Relating to Fixing
of Prices and Compulsory Acquisition of Commodities.*

State	Acts for fixing Maximum Prices	Acts for inves- tigating Quanti- ties of Supplies, etc.	Acts for compul- sory Acquisition of Commodities by States
<i>New South Wales</i> .	Necessary Commodi- ties Control Act, 1914	Necessary Commodi- ties Control Act, 1914*	Wheat Ac- quisition Act, 1914. Meat Supply for Imperial Uses Act, 1915
<i>Victoria</i> .	Prices of Goods Act, 1914	Foodstuffs and Com- modities Act, 1914	†
<i>Queensland</i> .	Control of Trade Act, 1914	—	Meat Supply for Imperial Uses Act, 1914
<i>S. Australia</i> .	Prices Regu- lation Act, 1914	Foodstuffs and Com- modities Act, 1914	Grain and Fodder Act, 1914
<i>W. Australia</i>	Control of Trade in War Time Act, 1914	Foodstuffs Commission Act, 1914	Grain and Foodstuffs Act, 1914
<i>Tasmania</i> .	Control of Necessaries of Life Bill, 1914†	Foodstuffs Commission Bill, 1914†	—

* In New South Wales the same Act provided both for fixing prices and for collecting returns of quantities of commodities.

† No Act passed; Ministerial arrangements made with exporters for reservation of meat supplies for Imperial purposes. Also by Ministerial direction the Government railways refused to carry wheat for inter-State consignment.

‡ Not passed.

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The first State in which any prices were actually regulated by the Government was New South Wales, where the price of wheat was fixed on September 15 last at 4s. 2d. per bushel. In arriving at this price the Commission expressly stated that it was influenced by the fact that the wheat stocks were largely in the hands of shippers, who might export them without regard to the interests of Australia, and that the price was fixed primarily for the purpose of enabling the Government to step in and seize supplies in the hands of shippers. At this date the price demanded in Sydney was 5s. 3d. per bushel, while the export parity of the London price was 4s. 7d. At a conference between the New South Wales, Victorian, and South Australian Commissions, held immediately after the price was fixed in New South Wales, it was agreed that in determining the price of wheat, the holders of stocks should not be allowed to pocket any unreasonable profit at the expense of the general community. It was recognized also that one of the most important circumstances affecting the question was the drought. Although the price fixed in New South Wales referred only to old season's wheat (1913-14) and to wheat sold for consumption within the State, the position in the other States, where no prices had then been fixed, immediately became complicated. In these States the ruling prices of wheat were considerably in advance of 4s. 2d. and the immediate effect was to check business on the wheat markets, sellers not being clear where they stood, whilst buyers were naturally unwilling to purchase at a price in excess of that at which they might be forced to sell, if the other States came into line with New South Wales. On the other hand it was thought that if the various States decided upon different prices, serious complications in regard to inter-State trade might ensue. The immediate effect within New South Wales itself, however, was that holders of wheat would not sell at the fixed price and the Government took drastic steps by seizing a large quantity of wheat in the

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possession of the State Railway Department, the price paid being 4s. 2d. per bushel.

On October 16 in view mainly of the droughty conditions and the poor outlook for the harvest the New South Wales Commission increased the price by 4d. per bushel in Sydney and Newcastle, leaving the original fixed price 4s. 2d. to operate in other parts of the State. These prices did not apply to the produce of the incoming harvest. Maximum prices were also fixed at various times by the Commission for flour, bread, bran, pollard, gas, and for wines, spirits, beers, and other drinks sold in licensed houses. On December 11 the Wheat Acquisition Act came into force in New South Wales, and as this Act provided for the compulsory acquisition of any wheat within the State at a price of 5s. per bushel (subject to certain variations), the proclamations fixing the price of wheat under the Necessary Commodities Control Act were annulled on January 6.

In the meantime, in Victoria, where a Liberal Government is in power, delay in giving effect to the agreement of the Inter-State Conference had been caused by the action of the Legislative Council in holding up the Bill constituting the Prices Board. The Council after various adjournments adopted an amendment which would have practically stultified the working of the Bill, and returned the Bill twice to the Assembly. At length, in view of the resentment and indignation expressed in the Assembly and the weight of public opinion, the Upper House surrendered after the Bill had been delayed for nearly one month. It is commonly believed that this section of the Legislative Council influenced a considerable number of Victorian votes in favour of the Labour party at the Federal Elections. In view of the facts that a conference had already been held and certain common principles adopted for the determination of the price of wheat, it might have been expected that uniformity would have resulted. But the New South Wales Commission

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and the Victorian Board apparently held irreconcilable opinions as to facts—since they had professedly agreed as to principles—and the position created was anomalous and absurd as shown in the following statement:—

	Wheat per bushel.		Flour per ton.	Bread.
	s.	d.		
<i>New South Wales</i>	4	2	£9 10	3½d. per 2 lb. loaf
<i>Victoria</i>	4	9	10 10	7d. „ 4 lb. „

Thus while the price of bread was practically the same in both States, wheat was 7d. per bushel and flour £1 per ton dearer in Victoria than in New South Wales. This immediately affected the question of inter-State trade, for the difference in prices would obviously induce the Victorian millers and bakers to buy their wheat or flour in New South Wales.

On November 17 the price of wheat in Victoria was fixed on the recommendation of the Board at 5s. 6d. with certain modifications as to freight, while the price of bread was not to exceed the usual retail price of flour at £11 17s. 6d. per ton. This raising of the price of wheat did not, however, bring any relief to the situation, while it only further aggravated the complaints of the consumers. Holders still refused to sell and under the Victorian Act there was no power of seizure. The next step was that on December 3 the Orders-in-Council fixing the prices of wheat, flour, bran, and pollard were rescinded.

The Board reported in making its first recommendation (that the price should be fixed at 4s. 9d.) that the advance in price since the outbreak of war was due to three factors, viz.:—

- (a) The prospective bad season.
- (b) The war, and
- (c) The fact that a great proportion of the wheat then in the State was owned or controlled by a few persons and firms.

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Any advance due to the latter two factors had, it was alleged, been eliminated. This allegation is not, however, easy to understand, since the price fixed, 4s. 9d., was on the parity of the existing London market price of 47s. per quarter. Moreover the difficulty in separating the increases due to the three factors appears to be insuperable. In its second report (that the price be increased to 5s. 6d.) the Board reported that it was convinced that the war had practically ceased to affect the price of wheat in Victoria, that the large holdings had been considerably reduced but that on the other hand the effects of the drought had been intensified. In its third report (that the fixed prices be rescinded and a free market restored) the Board stated that the conditions had again materially altered, the effects of the war having become a negligible factor, there being no extensive holdings of wheat, whilst the fear of a serious drought had been confirmed. Strong disapproval was expressed in many quarters at the abandonment of price regulation and it was remarked that it was significant that the Liberal Ministry abandoned regulation in the interests of the consumers only a few days after the State general elections had been held. On the other hand it should be pointed out that by December it was apparent that in Victoria (unlike New South Wales) there would be a large deficit in the wheat supply, and it was urged that the Government could not have made the necessary arrangements for importation from other parts of the world except at a large loss, had the market not been left free to regulate itself by the price at which wheat could be imported. The force of this contention is not clear. It is true that the Government would have been faced with heavy losses had it been compelled to import at the increased world's price and then to sell at the lower rate of 5s. 6d.; but this in itself did not constitute an adequate reason for the entire abandonment of price regulation. Since December the price of wheat in Melbourne has increased enormously.

In Queensland the policy adopted by the Boards con-

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stituted under "The Control of Trade Act" has been very different from that adopted in other States, inasmuch as prices, in some cases both wholesale and retail, were fixed for a larger number of commodities (including groceries, meat, and other foodstuffs, patent medicines, and tobacco) the grades or qualities of many of these being particularized in considerable detail. No price was, however, fixed for wheat. In December and February the prices fixed for all commodities (except meat in the Northern and Central Districts) were rescinded, the view put forward being that trade had resumed its normal course and that no person would be likely to accumulate stocks with a view to increasing prices.

In South Australia the policy adopted in regard to the actual fixing of prices was in direct contrast with that in Queensland, no prices whatever having been fixed. The prices of several commodities were investigated by the Commission, which, however, decided that no case had been made out for intervention.

In Western Australia wheat was the only commodity for which the price was fixed, the price being declared in Perth in October at 4s. 2d. As in other States, the question of fixing prices for various other commodities was considered, but it was decided that the existing prices were not unreasonable and that, as regards imported commodities, the increased manufacturers' cost at home, higher freights and insurance rates, the increased cost of some raw materials, and in certain cases the effect of the increased tariff brought into effect by the Federal Labour Government in December rendered some increase in the retail selling prices unavoidable. Under "The Grain and Foodstuffs Act 1914" the price of unimported wheat was fixed at 7s. 4d. f.o.b. Perth, Geraldton, Bunbury and Albany.

All the States in which Acts for controlling prices were passed have now practically abandoned the attempt. In New South Wales, Victoria, and parts of Queensland the prices of only a few commodities are now fixed. All the Acts

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are, however, still in force and the Commissions still in existence, and it has been stated authoritatively that should any manufacturer, merchant, or dealer endeavour to take advantage of war conditions the Commissions would take the necessary action to prevent oppression.

Though the Acts have therefore not been productive in so far as the actual fixing of prices is concerned it is commonly believed that their general moral effect in restraining exploitation has been substantial. This view is to some extent borne out by the fact that, on the average, prices of food and groceries have not advanced in Australia to nearly so great an extent as in other countries, although the gravity of the situation has been accentuated in this country by one of the most severe droughts ever experienced. On the other hand the opinion of many competent observers is that the whole effect of the regulation of prices, as carried out by a set of different unco-ordinated authorities, has been pernicious, inasmuch as it has prevented operations in the world's markets to secure supplies for Australia at an early stage when prices were comparatively low. This criticism is directed more particularly against the manner in which the arrangements were conducted in Victoria, where there was a considerable shortage in the wheat supply. The wiser policy would have been for the Commonwealth Government to have immediately stopped all export of wheat* and for the State Government to have promptly imported wheat themselves, instead of arbitrarily fixing the price at a time when the world's price was rising, thus effectually stopping the grain merchants from importing. The result has been that the State Government had eventually to employ the grain merchants to import for them at an enormous advance.

* It was not until September 8, 1914, that the export of wheat and flour to places other than the British Dominions, except with the consent of the Minister for Trade and Customs, was prohibited by Proclamation by the Governor-General. On September 23 the exemption of the British Dominions was withdrawn.

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VI. THE WHEAT SEIZURES

IN view of the difference in the prices of wheat fixed in New South Wales, Victoria, and Western Australia, and the absence of intervention in South Australia and Queensland, it is not surprising that serious complications soon arose as to inter-State trade in that commodity. Early in December when the price of wheat in Sydney was 4s. 6d. and in Melbourne 5s. 6d. large quantities of grain passed over the border from New South Wales to Victoria. Mainly for the purpose of putting an end to this export of wheat from New South Wales, the Parliament of that State on December 11 passed a "Wheat Acquisition Act," which provided that by notification in the *Gazette* any wheat might be acquired by the Government. The price to be paid was 5s. per bushel (subject to certain modifications as to freight) with such additional compensations as the Prices Commission might determine. Under this Act all wheat in the State was compulsorily acquired on December 24, the *Gazette* notification expressly exempting "wheat now actually in transit to the States of the Commonwealth of Australia other than New South Wales." The Government of Victoria, being informed that wheat was being taken by rail from that State to the Government of South Australia, directed the Railway Commissioners to stop such transport. In South Australia a shipment of wheat destined for Tasmania was seized by order of the Government and on November 12 the South Australian Grain and Fodder Act was passed. Under this Act a Board was constituted and empowered to acquire any grain and fodder in the State. In its main features this Act was the precursor of the New South Wales Wheat Acquisition Act, and under its provisions the Government has acquired from farmers over 300,000 bushels of wheat. In Western Australia the Grain and Foodstuffs Act became law on January 22, 1915, its

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main provisions being identical with those of the Grain and Fodder Act of South Australia. The Board has announced its intention to acquire all non-imported grain in Western Australia, fixing the price of wheat at Perth at 7s. 4d. per bushel. The Western Australian Government also detained wheat destined for South Australia. The object of these Statutes and official Acts was, of course, to preserve all available supplies to each respective State.

In view of the fact that inter-State trade is declared absolutely free under the Commonwealth Constitution, three test cases in which wheat (which was later held to have been the subject of inter-State trade) had been seized by the New South Wales Government were brought before the Inter-State Commission by the Commonwealth. By a majority decision of the Commission the New South Wales Wheat Acquisition Act was declared to be *ultra vires* and therefore invalid. This case is notable as being the first heard by the Inter-State Commission in its judicial capacity as a Court of Record. The finding of the Commission has been suspended in order to permit of an appeal, which is now before the High Court. For the present, therefore, there is no change in the operations of the Wheat Acquisition Board.

VII. INDUSTRIAL TRIBUNALS IN WAR TIME

IN Australia, where Arbitration Courts and Wages Boards play so large a part in the determination of wages, hours of labour, and other conditions of employment, the effect of the war on the deliberations of such industrial tribunals is a matter of general interest and far reaching importance.

In this connection it must be noted that in so far as the duration of awards is concerned there are in force in the different States two distinct types of determination. For example under the law in force in New South Wales, a

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determination by an Industrial Board covers a definite period specified in the award, and lapses at the end of that period, thus requiring a further determination at such time in order that a legally enforceable award may be in existence. On the other hand in Victoria a determination by a Wages Board is of indefinite duration and remains in force until repealed or amended by a subsequent determination.

On the outbreak of war, the Chairman of several Industrial Boards in New South Wales expressed the opinion that for a time the consideration of applications for new awards should be deferred. In opposition to this, other Boards held that there should be no break in the continuity of their functions and that applications for new awards should be considered as usual.

This want of uniformity in the attitude of the Boards, led to a ruling by the Judge of the Court of Industrial Arbitration that, in the absence of exceptional circumstances, applications to Boards or the Court for increases in wages should, for the time being, be suspended and that existing awards should accordingly be renewed for a short time. This pronouncement was made by Mr Justice Heydon on November 30, 1914, but was considerably modified if not actually reversed in a ruling given by him on January 25, 1915. In this latter ruling, which came into operation on February 1, 1915, authority was given to the Boards to consider claims for increases, but it was stipulated that in all such cases account should be taken of the existing state of things and the effect of the war upon both the industry itself and the community. By adopting this course the Judge thought that the same result (*viz.*, no increase in wages) might perhaps be brought about as under his former pronouncement, but that the new manner of attaining that result could be less open to the imputation of unfairness which had been brought against his original ruling.

In addition to the question of whether applications for new awards should be entertained, that of higher rates of pay for broken time came under consideration, and in several

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instances, with the consent of both parties, Industrial Boards have suspended the operation of the clauses of existing awards relating to the payment of increased rates to casual or regular employees working less than full time.

On the day on which news of the Declaration of War between England and Germany reached Australia, August 5, 1914, a request was made to the Premier of Victoria by certain firms working under the Determination of Wages Boards that during the course of the war the Ministry should order the suspension of such determinations. In reply the Premier stated that the Cabinet could not for a moment take into consideration such a proposal. He suggested that, if any slackness in trade occurred and the employers found that they could not work six days a week they should work five or four as they were perfectly entitled to do under the Factories Act.

On August 27, 1914, in his capacity as Minister for Labour, the Premier of Victoria suggested that, during the present crisis, Wages Boards should refrain from meeting except for the purpose of amending such literal errors in their determinations as practical working experience had shown to exist. This, it was stated, was not intended to prevent existing Boards which had not made a determination from doing so, but meant that where determinations were in existence the Minister would decline to sanction their amendment, except as indicated above. It was further stated that no new Boards were being created in Victoria, and that as far as lay in his power the Minister for Labour would hold things in abeyance.

On the question of higher rates of pay for broken time an amending Factories Act passed in Victoria early in November last provides that the higher rates for casual work do not apply if the employee works in any week for more than half time.

In Queensland the industrial position which is controlled by the Industrial Peace Act, 1912, has some interesting features. In a review of the situation, the Judge of the

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Industrial Court stated that in callings for which there was no Industrial Board in existence the majority of the employers and employees in such calling in any locality could enter into an industrial agreement and have it sanctioned by the Court, the agreement being thereupon deemed to be an award of the Court for all purposes of the Act.

Where, however, there is an Industrial Board in existence, a compulsory conference must be called and the power of the Court is limited to instances where an industrial dispute either exists or is threatened. Under these circumstances it was pointed out by the Judge that two courses were open under the provisions of the Act, to a majority of employers and employees desirous of amending an award:

1. To apply to the Governor-in-Council to suspend and appeal against the award with a view to the proposed amendment.
2. To apply to the Court themselves for an extension of time for appealing against the award, and if this be granted to apply to have the award varied as desired.

In an appeal for variation which came before the Court in accordance with the first of the above alternatives a provision was made in the award authorizing proportionate payment for broken time, and the mode of procedure followed was commended by the Judge as the desirable method of meeting the situation. He stated that in all such cases during the war the Crown should appear as appellant, since it had access to complete information and was interested in securing the general welfare of the community.

In South Australia and Tasmania proposals were made to suspend existing determinations of Wages Boards, but no action was taken in this direction. During the last three months of 1914, however, no new determination was made by any Wages Board in either State.

In the case of Western Australia several matters of importance in this respect have arisen. One of these is an

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arrangement in the brewing trade at Kalgoorlie that, in the event of a general disruption of trade through the war, the existing industrial agreement should be varied by mutual consent of both parties so as to keep as many men as possible employed. Similar arrangements have been made in other industries, including the timber trade and railways.

In the Commonwealth Conciliation and Arbitration Court an appeal for a variation of the weekly wage provided in the Felt Hatters' Award was refused on the ground that it had not been shown that the industry had been materially affected by the war in the direction of reducing the value of the work of the employees.

To sum up it may be said that the attitude, since the outbreak of war, of the industrial tribunals of Australia, has been that—

(i) Of maintaining as far as possible the *status quo* in matters generally.

(ii) Of moving slowly in regard to new determinations.

(iii) Of relieving restrictions where existing in respect of broken time, so as to enable short time for all hands to be substituted for reduction of hands.

Australia. March, 1915.

The South African article arrived too late for inclusion in the current issue of THE ROUND TABLE.

NEW ZEALAND

I. THE POLITICAL CRISIS

OUR political crisis after lasting for three months is still undecided. As mentioned in the March ROUND TABLE, the results provisionally declared on the evening of the General Election (December 10) indicated a tie; but after some surprising fluctuations the outcome of the official scrutinies and recounts which were held during the succeeding fortnight was to give the Massey Government a majority of 2, the figures being:—Government 41, Liberals 32, Labour 7. Though these figures would only leave the Government a majority of one after the election of a speaker, they were generally considered, in view of the overshadowing of all domestic issues by those of the war and the universal repugnance to a second General Election, to justify Mr Massey in holding on till the ordinary meeting of Parliament in June. Unfortunately, however, for the Government, their supporter, Mr Statham, who had recaptured the Dunedin Central Seat from a Labour candidate on the recount, refused to retain the seat on the chivalrous ground that it had come to him through an official blunder which had invalidated a number of his opponent's votes. The by-election thus necessitated prolonged the uncertainty till January 25, when Mr Statham's victory saved the Government from the embarrassment of a tie. By this time, however, no less than four Election Petitions had been lodged, two by each party. One of these was aimed at a Maori, who, though not the official Government candidate at the

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election, is classed, none too confidently, as a Government supporter; but the attack has failed. In the other three cases some knotty law points are involved which have been reserved for the Court of Appeal. The result at the time of writing (March 20) is still undetermined.

Whatever may be the result of these petitions, some greater change than they are at all likely to produce will be needed to give either Government or Opposition a working majority. The law's delays have allowed time for the cooling of election passions and for the consideration by the combatants of the special call which a unique situation makes upon their patriotism; but there is unfortunately little evidence that the politicians have profited by the breathing space thus provided. The public is practically unanimous in objecting to a dissolution. In the 33 years which have passed since the dissolution of the Parliament which passed the Triennial Parliaments Act an extraordinary dissolution has been unknown; and it is difficult to believe that the rule is to be varied at a time when the ordeal of the Empire would render such a course not merely an inconvenience but a calamity. The politicians are at one with the public in deploring a dissolution, and in approving the general idea of a co-operation between the parties by which the necessity would be avoided. But how this is to be effected nobody has yet been able to suggest, and among the politicians themselves there is a general incredulity as to the possibility of the solution which they admit to be desirable.

The dividing lines between the Reform Party and the Liberals as revealed in their election programmes and their election speeches were far from clear-cut. The land question, which was a great source of strength to the Reformers at the General Election of 1911, has spent its force. The Liberals, who were then divided in their opposition to the proposal for a wide and retrospective extension of the Crown tenants' right of purchasing the freehold, have accepted the legislation of the late Parliament on the subject

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as an accomplished fact which cannot be re-opened. The only important measure of the Government which the Liberals desire to repeal is the Act that places a large part of the Public Service under the control of a Commissioner who is responsible to Parliament but not to the Government. On the other hand, the Reformers have not attacked any of the capital measures of the Liberal regime but have on the contrary in many cases extended their scope. With regard to the future the programmes of both parties have much to say, but nothing that amounts to very much. They differ in regard to naval policy—a matter which is unfortunately of much less interest to the rank and file on both sides than to the leaders—but the issues which separate the parties and impart bitterness and heat to their differences are mainly of an administrative and personal character. There are no such fundamental differences of principle as would justify the Reform Party or the Liberals in continuing their quarrels in the presence of a national danger which was felt to be imminent.

It may indeed be said that the differences in principle between the Reformers and the Liberals are trivial in comparison with those which distinguish the latter from the Labour Party. Thoroughgoing Socialism is the creed of both sections of the Labour Party, and two of their seven representatives in the House belong to the revolutionary section which in politics is known as the Social Democratic Party, and on its industrial side as the Federation of Labour.

There was a very close co-operation between Labour and Liberalism at the General Election. The arrangement was inspired on the part of the Liberals by exactly the same motives as the support given by the Reform Party to Socialist candidates in two or three constituencies in 1911. In each case deep-rooted differences of principle were ignored by a party whose immediate object was to get its chief opponents out of office. But the revival of the old Liberal-Labour alliance after the Federation of Labour had involved the country in a lawless and perilous strike was a

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circumstance of which the Reformers, undeterred by their own previous lapses from virtue, did not fail to take the fullest possible advantage. The severity of their denunciation of these tactics, the bitterness of the resentment thus aroused, and the complete dependence of the Liberals upon the Labour vote, if they were to have any chance of success, have greatly augmented the difficulties of the co-operative settlement to which the country looks for an escape from the present deadlock. Had the Labour Party maintained its independence as it had done in the preceding Parliament, a Liberal-Reform understanding would have been a much simpler matter, but that single experiment in isolation has induced the Labour Party to revert to the arrangement which prevailed under Ballance and Seddon. An Opposition caucus held within a fortnight after the General Election was attended by all the Labour members, elected Sir Joseph Ward as leader, and gave him a free hand. The Opposition will thus be a much stronger fighting force than in the late Parliament, but for the purposes of co-operation with the Reform Party Sir Joseph Ward will find it far less tractable than if the Liberals had stood alone.

II. “ BUSINESS AS USUAL ”

MR ANDREW FISHER, the Prime Minister of the Commonwealth, who paid us a visit in January and made an excellent impression, referred in one of his speeches to the wonderful fact that, though the greatest war known to history was raging, its ravages were practically unknown on this side of the world. Not only has New Zealand, like Australia, escaped the ravages of the war, but to an even greater extent than Australia she has escaped its inconveniences. In August and September, when patriotic enthusiasm was at its height, there was also a considerable dislocation of business, for the enthusiasm of those days

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was accompanied by a natural apprehension as to what was coming next. The result was an "economy panic" which was gradually dissipated by returning confidence as the Allies' retreat from Mons was followed by the Germans' retreat from Paris. Business resumed its ordinary channels to a very large extent, and has been steadily improving ever since. One reason for the steady improvement is that the war has been a boon to the staple industries which are the pillars of the country's prosperity. The total or partial closing of rival sources of supply has brought to our farmers and runholders prices for their wool, mutton, butter and cheese which have gladdened their hearts. The year 1914 was a "record" year for our exports of produce, with a total, excluding specie, of £25,984,717, and the increase of £3,406,827 over the previous year was mainly the result of higher prices.

Some indirect benefit from these big profits necessarily reaches the towns, but urban industry has received no corresponding stimulus of a direct character from the war, except for the share that it has had in the provisioning and equipment of the troops and their transports. The town-dweller has on the contrary suffered from the same rise in prices which has benefited the countryman, and he has also had to bear the principal share of the inconveniences arising from the retrenchment of the well-to-do in their expenditure on luxuries, the indisposition of many investors to tie up their money for long periods, and the consequent shrinkage of industry and enterprise. "Nothing less than a universal rise in wages of 20 to 25 per cent would give the workers anything like justice," said a Wellington Labour leader on March 12. "The workers should insist on getting their share of the high prices which were doubling the income of the producers, merchants and shipping companies." The Arbitration Court which practically declared for the *status quo ante bellum* in a ruling given on August 6 has now been asked by some of the Labour Unions to reverse this decision and allow matters to be re-opened, on the ground

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that the rise in prices has reduced the purchasing power of wages by at least 2s. 6d. in the £.

The one essential article of which the rise in price has been most serious is wheat. New Zealand has long since ceased to export wheat on any considerable scale, but since the war she has had the novel experience of importing it. Under the Regulation of Trade and Commerce Act of last session the Government, with the help of a Royal Commission, has from time to time endeavoured to fix maximum prices for both wheat and flour, but the results have not been satisfactory, and with the local harvest in sight, and on the ground that the farmers should not be deprived of their legitimate profits, the effort was formally abandoned on February 8. The enterprise of the Government in purchasing supplies of wheat in Australia and Canada totalling about 1,585,000 bushels is generally recognized as having been more effective in checking the tendency of wheat to touch extravagant prices. Nevertheless the price of bread has steadily risen, and the price of the four-pound loaf stands at 10d. to-day as against 7d. before the war. The prices of meat and other necessities have also risen seriously, though to a much smaller extent; and the estimate of 8½ per cent submitted to the Arbitration Court by a Labour advocate as representing the increase of the cost of living during the first five months of the war does not appear to be more than 1½ per cent in excess of the fact.

From the standpoint of the retail trader the least satisfactory report on business conditions since the first few weeks of the war has come from Auckland, which for some years has led the Dominion in the rapidity of its progress. The result of inquiries made by the *Auckland Star* which was published on March 12 was to show a general decline of business in the Northern city. The salient points have been summarized as follows:—

Drapers state that their experience is a satisfactory one, but their customers are buying a cheaper article than hitherto and

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more of them. Hotelkeepers state that a decided falling off has occurred in the amount of liquor consumed. One of the reasons they think is that so many wage-earners have left for the front, and another is that numbers of men have caught the spirit of economy. "It means," said one, "that the people are more careful and prudent than they were before. I don't think that it is because the spending power of the community is necessarily less. The cost of living is certainly a little greater, but wages have not decreased." The hotelkeepers agree that the falling off in trade is more pronounced with regard to spirits than to beer, which is less expensive. According to a wholesale tobacconist, the tobacconists have also experienced a falling off in business, more especially in respect of fancy lines. Retailers state that in any but "bread and butter" lines, business is considerably below normal.

Wellington has had a more fortunate experience. Of the wholesale trade and financial conditions Mr Harold Beauchamp, as Chairman of Directors of the Bank of New Zealand and director of a large mercantile house in Wellington, can speak with authority, and his testimony is as follows:—

Trade may be said to be in a healthy condition. There has been an improved demand for all standard lines, and no falling-off in purchases. After all, these conditions are only to be expected so far as Wellington province is concerned and New Zealand generally, having regard to the splendid prices which are being realized for all descriptions of produce. There is no disposition on the part of the people to purchase goods of inferior quality. Just at present, owing to congestion at the docks in London, brought about by the shortage of labour through enlistment of employees, there is a difficulty in respect of shipments. If it were not for this we might expect to see great improvements with respect to goods manufactured in the United Kingdom, since we are unable to obtain any merchandise from enemy countries....

Further, having regard to the considerable falling off which has taken place in the value of our imports and the great increase in the value of exports, there will in the next few months be a very wide margin between these two sets of figures, the result of which will be a further financial ease in New Zealand. On the whole, I think, the public may regard the situation as being quite hopeful.

The retailers of Wellington tell much the same story, as

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the following representative opinions taken from the *Evening Post* of March 15 will show:—

Drapers in a big way of business said they had little to complain of, and one dealer who does a big volume of trade with the working class said his business was, if anything, better. The people were asking for lines of good quality, and were even buying what might be regarded as luxury lines. At one time there was a little falling-off in trade, due solely to delay in obtaining new shipments of goods. "The people who could afford to buy," said another, "are the only ones inclined to keep their purse-strings tight. At first there was a slump in business, but that has gradually diminished, and now things are just about normal. There is no extravagance, but people are still buying our best quality goods."

The same gentleman spoke of slowness of trade in the furnishing department, the people being inclined to make a carpet last a little longer and keep the money for a new sideboard till they knew whether it would be required for other purposes. On the other hand, one furniture manufacturer complained that he could not get his orders out quickly enough.

The manager of a jewellery and silversmiths' establishment said that the Christmas trade has not been quite so good as usual; but the sales now were very encouraging. The trade went down with a bump in August and September, but had recovered since. There might be bad business later, but it would not be a panic.

So different is Wellington's experience from that of Auckland that the Wellington business man believes that Auckland's depression is due to the reaction following a land boom rather than to the war. Wellington made the acquaintance of a "slump" of this kind about six years ago, and it may be that Auckland is faced with the same bitter experience to aggravate the effects of the war.

III. THE IMPERIAL CONFERENCE

EVEN if there had been no other objections the deadlock alone would probably have prevented the Dominion from supporting the proposal for holding the Imperial Conference at the usual date. Had the Conference been

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summoned, it is indeed difficult to see how under existing conditions we could have been represented. When the absence of a single man might deprive a Government of its majority, it could hardly be expected to send its leader and his first lieutenant away for four or five months. If the Prime Minister could have paired with the Leader of the Opposition and taken him as a co-delegate to the Conference the position would perhaps have been different. The unstable equilibrium of our politics might then have established a valuable precedent for the improvement of the Constitution of the Imperial Conference. Both the representative and the educative value of the Conference would be greatly increased by the inclusion of Oppositions as well as Governments. In two of the Dominions the party that was in power four years ago is in Opposition to-day; in a third a double change has put it out of power and in again. Thus in two Dominions the personal connection of their Ministers with the Imperial Conference has been completely severed, and in a third it was temporarily severed but restored. Such breaches are inevitable, even in those countries where the Parliamentary term is not shorter than the interval between one Imperial Conference and the next, but there would be a much better guarantee of continuity if Oppositions were represented on the Conference. The voting power would still be properly confined to responsible Ministers; but the educative process would be of great value for the delegates who had no official authority and through them for their respective parties. In some cases the opportunity that a Prime Minister would have of consulting his Leader of Opposition while the Conference was proceeding might have a material effect in smoothing the path of a new proposal. Against these advantages there seems to be no more serious set-off than the risk of local party differences occasionally intruding to trouble the air of an Imperial Conference. And the general effect of broadening the basis of representation from parties to nations must be to strengthen the authority of the Conference and enlarge its

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usefulness. In 1909 when preparations were being made for New Zealand's representation at the Defence Conference the suggestion was made that Mr Massey as Leader of the Opposition should accompany Sir Joseph Ward, and it was understood that the Ward Government would have given Mr Massey an invitation if assured that he would accept it. Whether Mr Massey or Sir Joseph is in office when the summons to the next Imperial Conference arrives, it is to be hoped that he will see that the other is given the chance of going too. Under present conditions the call to unity that comes from the war and the need for forbearance that is dictated by the close balance of parties would facilitate a course which, if its results were satisfactory, might become of general observance.

An unfortunate result of the party deadlock is that, though individually the politicians share the determination of the people to see the war through and to take a fair share in its responsibilities, there has been a lack of the vigorous initiative needed to realize this aspiration. No attempt at all has been made to estimate the resources of the Dominion relatively to those of the United Kingdom or the Empire and to provide men and money to match the estimate. Yet how otherwise is our fair share in the responsibilities to be assessed and undertaken? It is in a much less scientific style that we have gone to work—a haphazard and hand-to-mouth fashion worthier of the impulsive and piecemeal methods by which the Empire has been built up and governed than of our own desire for an equitable participation in the burdens of the war. There has been no refusal or reluctance on the part of the people to do whatever has been asked of them. It is the requests that have fallen short, and the absence of any reasonable standard of measurement is one cause of the shortage. The number of men provisionally fixed for our Expeditionary Force as the result of the discussion between Mr James Allen, our Minister of Defence, and the Imperial authorities at the beginning of 1913 was 8,000. In the first six months of the war we had provided

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about double that number, but of these only the 1,300 men sent to Samoa and a brigade of artillery and a battery of howitzers dispatched with the main force were really in excess of the 8,000 limit. The others represented the reinforcements required to keep the two forces at their full strength. The original estimate was that 25 per cent of the main force should be dispatched every two months, but that figure has now been reduced to 15 per cent or 1,800 men. The last two contingents of reinforcements have proceeded on this basis. It is plainly unreasonable to assume that compliance with the standard fixed in time of peace, when the Expeditionary Force allocated to the United Kingdom must have been about 160,000 men, is an adequate discharge of our duty when the Empire is engaged in a life-and death struggle which has already increased Britain's contribution to 3,000,000 men. Yet this is practically what our Government are doing. They tell us that we have found the 8,000 men nominated in the bond and even a thousand or two more, and we are left to infer that we are eminently profitable servants having done all, and perhaps more than all, that our duty demands.

At the outset of the war New Zealand's contribution of 10,000 men was a very creditable one, representing as it did the equivalent of 450,000 men for the United Kingdom, 70,000 for Canada and 50,000 for the Commonwealth; and the ease with which the result was achieved fully justified the foresight of Mr Allen in organizing the Expeditionary Force in the face of much wild criticism two years ago. But our quota has remained stationary while the others have advanced, so that even measured by the standard of what others are doing we are falling behind. What is wanted is that somebody who can speak with authority should say exactly how many men the Empire needs within say the next six, twelve and eighteen months, and that each of the Governments concerned should undertake its fair share of the burden. An Imperial Conference acting in concert with the Imperial Defence Committee would not have taken long

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to settle the quotas, and there is not a Dominion that would not have eagerly responded to the call. But New Zealand at any rate is resting for the present upon an obsolete schedule and waiting for a call from the Imperial Government which may never come.

The present constitution of the Empire, however, no less than its past history makes it better that the Dominions should offer than that the Mother Country should ask for help in such a case. It is not really the Mother Country that needs help but the Empire, of which the daughter States are just as much a part as she. It is not mere sentiment that has brought them into the field. The appeal to the sentiment of the Dominions has been fortified by a clear recognition of the fact that their fate is staked upon the issue just as completely as that of Great Britain, and that for them as for her the struggle is a matter of life and death. A sense of gratitude is really therefore as much out of place on her side as a sense of merit on theirs, but in both cases the feeling is natural since practically the whole burden of the common defence has hitherto fallen upon the shoulders of Great Britain. The action that the Dominions have now taken is the final proof that they have passed from tutelage to partnership, but the footing of partners demands the equitable apportionment of burdens to benefits, and this has not yet been attained. The colossal sacrifices that the United Kingdom is making in the common cause should be a sufficient call to the Dominions to play the man and take their full share. Measured by this standard New Zealand's performance makes but a poor showing.

According to Mr Asquith's statement to the House of Commons on March 1 the British Government is spending £1,500,000 a day on the Army and £400,000 a day on the Navy. This represents an annual total of nearly £700,000,000 or about £15 10s. per head per annum. As against this Mr Massey's estimate in November of our War expenditure was £2,000,000 a year, but in March he tells us that the rate has increased to £3,600,000 a year. The present rate

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is thus about £3 10s. per head for New Zealand as compared with £15 10s. per head for the United Kingdom. On the British scale we should be expending £40,000 a day on the war; our actual outlay is less than £10,000 a day. And while the British people have submitted to such drastic measures as the doubling of the income tax our own Ministers have not only allowed the first six months of the war to pass without any extra taxation, but even assured us that no extra taxation will be necessary. The imminence of the General Election afforded some excuse for the reluctance of the Government to invite the country to face the facts last year, but the suggestion that we would provide an additional £2,000,000 a year for unproductive expenditure at a time of financial stringency and falling revenue without extra taxation was not worthy of the reputation of the Government for prudent and sound finance. On March 2, however, Mr Allen warned us that a surplus was not to be expected and that a War Tax would be necessary. He gave no indication of the form that the new taxation was likely to take, and the settlement of the question will give party feeling an excellent opportunity for making mischief. In the towns the imposition of a duty on exports finds considerable favour. While the consumer, as already explained, is suffering from a general rise in prices, which was estimated at 6·9 per cent up for the first six months of the war, the producers are profiting from the same cause to an unprecedented extent. The town-dweller who suffers from dear food and tight money is looking with envious eyes on the big prices that the countryman is getting, and he favours a duty on exports as a means of reducing the inequality as well as a convenient source of revenue. There is obviously a good opening here for strife between town and country, and class may also be set against class if the opposition adopts from its left wing the idea that taxation of this kind should be a monopoly of the rich.

The war produced a temporary suspension of party hostilities only to let them loose again with something worse

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than their previous violence when the first few weeks of scare were past, and it provides us now with no guarantee against the intrusion of party and class passions into the adjustment of the finances of the war.

It would of course be pedantic to suggest that, because Britain has increased her expenditure by 350 per cent and doubled her income tax, we should do the same. It is even possible that good reasons may be given why we should not send as many men to the front in proportion to our population as she has done. So far the only reason suggested is that it is of more importance to the Empire that we should keep up our supplies of meat and wool and dairy produce than that we should find what on the scale of the warfare in Europe would be but a few more men. The export figures already quoted indicate that there is no risk of a decline in the agricultural and pastoral industries which are at all times the mainstay of the country; but if these were likely to suffer, it would be a simple matter to discriminate in the future selection of recruits and to get them from other sources. Hitherto the Defence Department has got all the men that it has needed with a minimum of organized effort. The need for more men has only to be plainly put in order to evoke a response worthy of our place in the Imperial partnership and of the intense patriotism of our people. What is wanted is less talk about the last shilling and the last man and a more determined effort to make the immediate provision that will prevent the necessity of translating this heroic talk into action.

(P.S.) Since this article was written the Prime Minister has made a statement which goes far towards putting his Government and the Dominion right with the Empire. Addressing the New Zealand Club at Wellington on March 18 Mr Massey referred to the Dominion's war expenditure as amounting to £300,000 a month and as certain to increase, and proceeded as follows:—

"We have to face it. I don't think it's too much. I doubt if we are doing enough. Personally, I would like

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to do more, and if the Imperial authorities would indicate some direction in which we can do more, I am quite sure the Government and the people of New Zealand would be glad to accede to the request."

Though a definite offer of something more would have been better still, this frank acknowledgment that we are not doing enough is very welcome.

The Prime Minister's failure to take the obvious and easy course of offering more men has been interpreted to mean that men without equipment are useless. Here as in the Mother Country equipment is already a much more difficult problem than personnel. But as the War Office is still asking for more men and recognizes the difficulty of filling their places in peaceful industry as a serious one, why should not New Zealand forward by passenger steamers volunteers for whom she cannot herself provide to be trained and equipped at Home? This, however, is a matter for argument and conjecture. What is certain is that in placing our resources at the disposal of the Imperial authorities Mr Massey has taken a course of which the patriotism of the Dominion approves, and delicacy should no longer restrain them from making the suggestions which he invites.*

New Zealand. March, 1915.

* On April 17 Mr Massey said that the War Office had accepted another offer of the New Zealand Government. This was additional to the reinforcements required to maintain all the forces at full strength.

